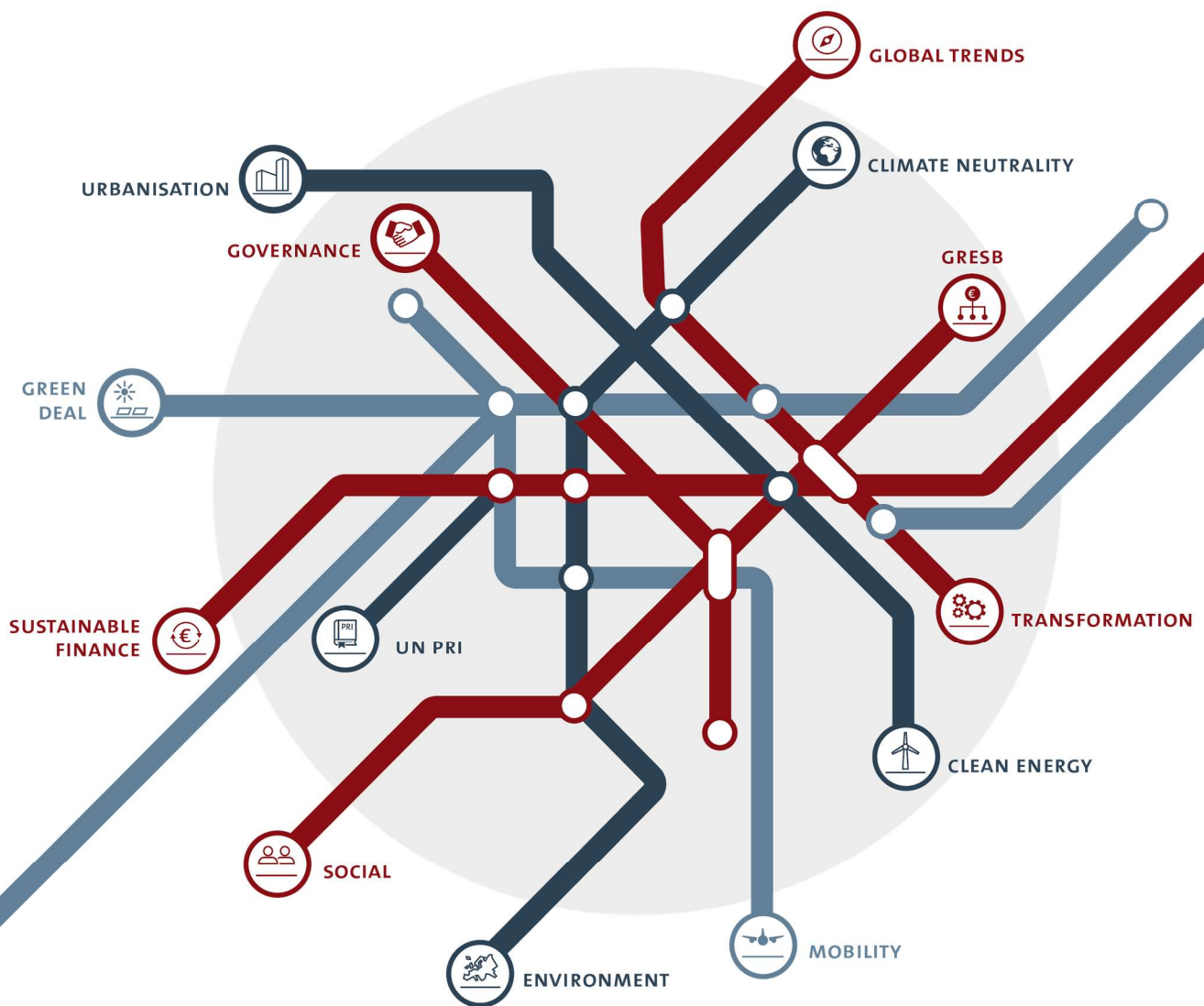


# OUR CONTRIBUTION TO COMBAT CLIMATE CHANGE



## THE CHALLENGE

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Climate change is one of the greatest global challenges of our time. Scientists estimate that we are currently heading for an average temperature rise of 3 to 4 degrees Celsius by the end of the century. If that happens, large parts of our planet will become uninhabitable, with catastrophic consequences for all life around the world. In 2023, global carbon dioxide emissions reached a new record high, and the trend is rising. As a result, the last 30 years have been the hottest on record. Heat waves, floods and forest fires are having an increasingly frequent and drastic impact on people's lives.

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 2015 Paris Agreement to keep the global average temperature increase to well below 2 degrees Celsius and to continue efforts to limit it to 1.5 degrees Celsius. Several European member states, including Germany, announced their intention to introduce policies to achieve net zero emissions by 2050.

It was agreed as one of three goals to channel global financial flows into projects and technologies that reduce greenhouse gas emissions and promote climate-just development. To achieve the EU's climate goals, experts believe that additional investments of 180 billion euros are needed every year. The financial sector will play a key role in mobilising them.

By 2030, Germany wants to reduce greenhouse gas emissions by at least 65 percent compared to 1990. To this end, the German government has laid down its national climate protection target in a binding Climate Protection Act. This sets annual emission targets in the form of emission caps for the energy, industry, transport, buildings, agriculture and waste management sectors. The federal ministries are obliged to ensure that the annual emission targets are achieved in each individual industry. Although the sectoral targets do not specifically affect the financial sector, they do have an indirect impact on the sectors in which KGAL is economically active (for example, promoting energy-efficient buildings).

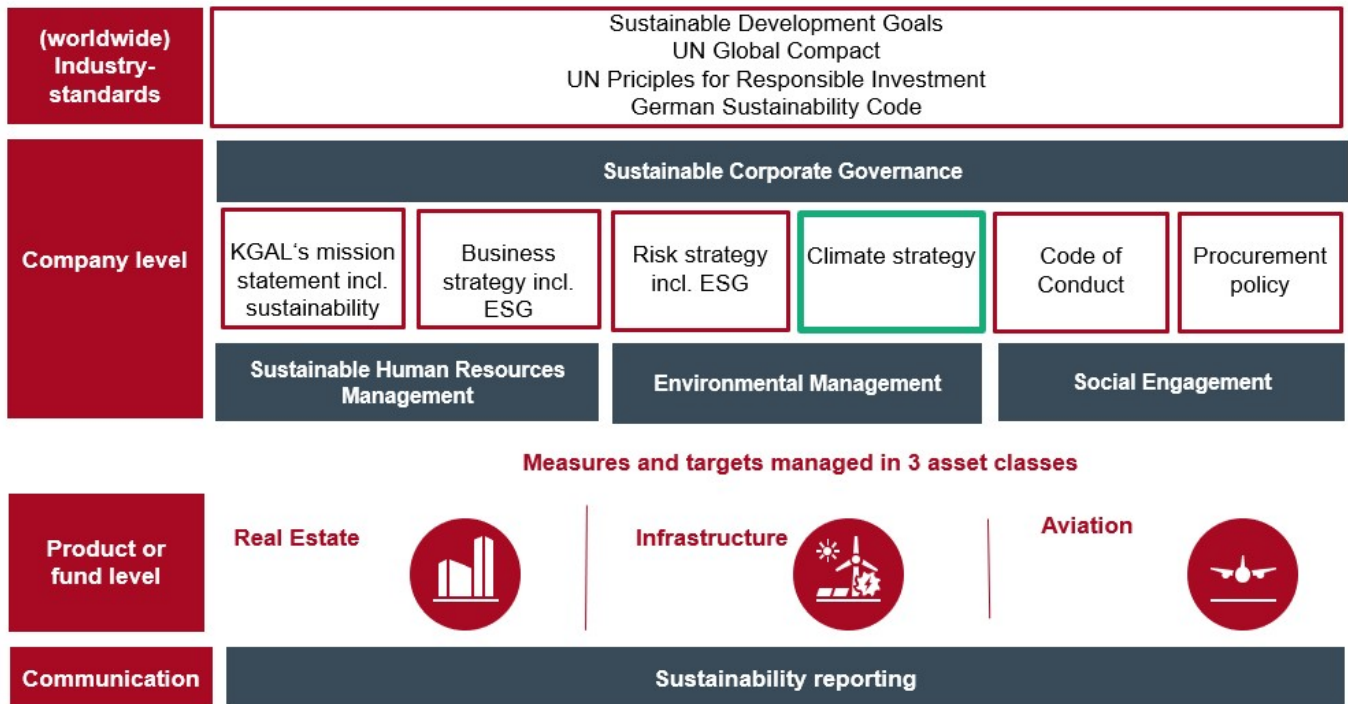
## OUR MISSION

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KGAL Group ("KGAL") adopted a mission statement back in 2010 that anchors the requirements of environmental protection in our corporate objectives. According to these values, KGAL not only wants to offer sustainable products for its investors: In cooperation with our clients and other stakeholders, KGAL also wants to be an integral part of a sustainable society as an investment manager. To underline this, KGAL signed the United Nations Principles for Sustainable Investment (UNPRI) in September 2018. Consequently, sustainability aspects are an integral part of KGAL's business and risk strategy.

In line with its business strategy, KGAL also considers, among other things, climate-related risks, which we regard as factors influencing financial risks. We want to contribute to reducing climate risks and be prepared for changes in the interest of our clients. For our clients, we protect the assets of the investment funds we manage from climate-related risks and mobilise private and institutional capital for a low-carbon economy. At the same time, KGAL aims to contribute to the Paris Agreement and national climate targets. In addition, this climate strategy aims to meet and anticipate requirements of European and national financial regulators regarding the integration of climate risks.

The following chart shows an overview of how the climate strategy fits into KGAL's overall sustainability management:



## OUR IMPACT

KGAL is convinced that a long-term reliable, transparent, and accountable climate policy is a prerequisite for successful business and competitiveness in the future. As an international investment manager, KGAL Group wants to live up to its responsibility in combating climate change by supporting the transition to climate neutrality.

Climate change is both a risk and an opportunity for KGAL's business model. Today, our renewable energy portfolio already generates over 2.6 TWh of green electricity per year, supplying over 1.4 million people with green power. KGAL intends to increase the total amount of green power generated by its renewable energy investments each year and takes emissions aspects into account when investing in other asset classes. This includes, among other things, investments in green hydrogen and decarbonisation targets for selected real estate funds.

We know that the investments of our managed funds are associated with significant greenhouse gas (GHG) emissions. As an asset manager focused on long-term investments in real assets, we mobilise institutional investors' capital for investments that promote climate protection and adaptation to climate change, and we support the transition to a low-carbon economy.

In addition, our direct business activities impact the climate through building emissions and resource use. We seek to minimise these impacts by applying strict environmental management criteria to our business buildings and raising awareness among our colleagues to practice environmentally responsible behaviour at work and at home. Our operations currently result in approximately 1,270 tonnes of CO<sub>2</sub> emissions per year. From 2018 to 2022, we were able to reduce the total emissions associated with our direct operations by an average of 5 per cent per year. A special effect here is the Covid19 pandemic. During this period, many employees worked from home, which resulted in fewer emissions associated with our operating sites. Our surveys show that the largest share of these emissions is caused by business travel and commuting. Considering materiality, we have therefore focused our goals and measures on mobility aspects.

## OUR GOALS

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To live up to our responsibility, KGAL has set itself ambitious goals:

1. By compensating remaining emissions, KGAL has been a so called "climate-neutral asset manager" since 1 January 2021<sup>1</sup>. This means net zero in Scope 1 (all direct emissions), Scope 2 (indirect GHG emissions from the consumption of electricity, heat, or steam) and Scope 3 emissions related to our business operations (business travel, commuting, water and paper consumption, office supplies).
2. In line with the goals of the Paris Agreement and the German Federal Climate Change Act, we also set ourselves the target of reducing emissions directly related to the investment funds we manage ("Scope 3") to net zero by 2045. In simple terms, a financial institution's "Scope 3" emissions are above all the greenhouse gas footprint of our investments across all asset classes.
3. KGAL's understanding of climate protection also includes reducing emissions attributable to our own behaviour in the workplace. Starting from the base year 2018 (first measurement), KGAL aims to reduce its emissions per employee by 5 percent annually over the next 10 years. This target has been achieved in every year until 2021. In 2022 our GHG emissions increased for the first time compared to 2021 due to normalisation after the corona pandemic.

## OUR ACTIONS

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Our risk, compliance and operational processes provide for procedures and tools to identify, assess, and monitor environmental and social risks. These include know-your-customer (KYC) processes, due diligence processes for transactions, product development and investment decision processes, and guidelines for our suppliers. These processes can identify customers, transactions or suppliers that potentially violate our standards or are the subject of significant environmental or human rights controversy. Our due diligence processes also include climate protection aspects, particularly climate risk assessments.

To achieve our ambitious goals, we have developed a catalogue of measures that addresses both our business activities and, in particular, our investments. The measures and targets are based on five principles:

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

The following overview shows measures that we have already implemented, that we are currently working on and that we will implement in the future:

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<sup>1</sup> Every company generates greenhouse gas emissions through its business activities. The consumption of energy and materials, business trips or the commute of employees to and from work are CO<sub>2</sub> sources that arise in business operations. Processes are described as climate-neutral if no climate-relevant gases escape or if gases already emitted can be saved or otherwise offset. KGAL offsets CO<sub>2</sub> emissions that have not yet been reduced by investing in certified climate protection projects.

**Principles of the KGAL Climate Strategy**

**Our investment activities**

**Our business activities**

**1. Measure**

- Due to the complexity of the data and diverse measurement methods, it is currently still a challenge to reliably measure CO<sub>2</sub> emissions at all product levels. Nevertheless, we are striving to improve the availability of emissions data and want to record our CO<sub>2</sub> emissions completely at product level in the medium term. For funds from the real estate, renewable energy and aviation sectors, we are already well advanced in achieving this goal.



- Annual collection of consumption data from business operations. This includes energy, water and paper consumption, waste and mobility (business travel).
- Annual measurement of the company's CO<sub>2</sub> footprint: An independent partner calculates the data based on the requirements of the Greenhouse Gas Protocol (GHG).



**2. Integrate**

- To capture physical and transitional risks related to climate change, KGAL is successively implementing a comprehensive risk assessment for all asset classes.
- KGAL incorporates significant climate risks into its risk and investment policies and processes and has integrated sustainability risks into its due diligence risk assessment.



- Our employee mobility is by far the largest contributor to our CO<sub>2</sub> footprint. For this reason, we have raised awareness and incorporated sustainability aspects into our travel policy, for example through positive incentives, changing policies and extending mobile working to up to 10 days per month.



**3. Reduce/Avoid**




- KGAL does not make any direct investments in fossil fuels. This includes all direct investments in fossil energy projects / plants. This means no investments in oil and gas production, infrastructure that is primarily geared towards oil and gas and no electricity and heat generation from fossil sources<sup>2</sup>.
- Furthermore, KGAL does not invest in coal mining and coal-fired power plants, Arctic oil and gas or oil sands.






- KGAL has introduced bicycle leasing for all employees to reduce commuter traffic emissions. KGAL plans to set up a platform for car-pooling on the intranet.
- KGAL regularly informs employees about sustainability issues and the effects of climate change.
- All employees have the option of working from home on up to 10 working days per month, which noticeably reduces commuting emissions.



- 4. Compensate**

  - KGAL offsets carbon emissions of selected investment funds by investing in certified climate protection projects. 
  - KGAL offsets remaining emissions with by investing in certified climate projects and has thus made its direct business operations climate neutral since 2021. 
  - Offsetting includes emissions generated in the procurement of office supplies and purchasing carbon neutral paper. In addition, as part of our code of conduct, we ask our suppliers and business partners to reduce their impact on climate change and we consider suppliers' environmental performance when selecting them. 
  
- 5. Disclose**

  - KGAL has set itself the goal of measuring and recording the CO<sub>2</sub> footprint at product level. For real estate, renewable energy and aviation funds, data was disclosed for the first time in our sustainability report of 2022. 
  - KGAL reports transparently on its CO<sub>2</sub> footprint every year. 
  - KGAL will play an active role in climate initiatives (for example Net Zero Alliance or TCFD). Since 2022, KGAL is an official supporter of TCFD. 

## OUR ACHIEVEMENTS AND NEXT STEPS

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KGAL has significantly improved its CO<sub>2</sub> footprint through substantial emissions reductions in the period from 2018 to 2022:

- Reduction of the Corporate Carbon Footprint by an average of 5 per cent per year (reduction of 508 tonnes from 2018 to 2022).
- Reduction of scope 1 greenhouse gas emissions by approximately 90%, scope 2 emissions by 60% and scope 3 emissions by 18%. Total reduction of all scopes by 28.5%.
- Installation of photovoltaic systems on our office buildings (reduction of approximately 48 tonnes of CO<sub>2</sub>)
- Purchase of 100% green electricity at the Grünwald site as well as various energy-saving measures such as LED technology and motion detectors (reduction of approx. 310 tonnes of CO<sub>2</sub>); purchase of geothermal energy for heat supply
- Significant reduction in the storage capacity required in the external data centre (reduction of around 34 tonnes of CO<sub>2</sub>); in addition, use of 100% green electricity

To ensure a steady reduction, also at the product level, we have developed an ambitious roadmap:

# 2020

# 2030

## Achievements

- Integration of material climate risks into our risk and investment policies
- Exclusion of investments in fossil fuels, i.e. oil and gas production, coal mining, electricity and heat generation from fossil sources as well as infrastructure that is primarily used for oil and gas
- Annual Corporate Carbon Footprint Reports
- Mobile working for all employees
- Active environmental management
- Sustainable travel policy
- We have reached carbon neutrality by compensating remaining greenhouse gas emissions with investments in certified climate projects
- KGAL bicycle leasing

## What's next?

- Measuring and reporting the CO2 footprint at product level
- Active role in climate initiatives (e.g., net zero initiative)
- Implementation of further measures to reduce our Corporate Carbon Footprint

## Goals

- Complete CO2 emissions data at fund level
- Analysis of the carbon footprint of our investments to identify reduction potentials
- Set intermediate targets on our way to net zero 2045
- Define decarbonization pathways for our funds