VBV Vorsorgekasse

VBV policy on the integration of sustainability risks and the consideration of sustainability factors

(in accordance with Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, hereinafter referred to as “**SFDR**”)

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VBV - Vorsorgekasse AG (hereinafter referred to as "**VBV**") is a severance fund ("**severance fund**") as defined in section 1(1) item 21 of the Austrian Banking Act (BWG, Bankwesengesetz) and does not meet the formal requirements of a financial market participant as defined in Article 2(1) SFDR. While this means that the SFDR's disclosure requirements do not apply directly, sustainability is still of key importance to VBV both when it comes to investing the severance fund contributions we hold in trust in the collective investment entity under section 28 of the Act on Corporate Staff and Self-Employment Provision (BMSVG, Betriebliches Mitarbeiter- und Selbständigenvorsorgegesetz) ("**collective investment entity**") and to investing VBV's own financial assets. Our investment activities both in the collective investment entity and in VBV are governed by the same processes and set of criteria, which will be outlined below. Differences between the collective investment entity and VBV, if any, will be indicated separately.

Preface

By ratifying the Paris Agreement,[1] the participating states have committed themselves to limiting global warming to 2 °C or 1.5 °C above pre-industrial levels. To reach these goals and to reduce the negative impacts of climate change, the European Commission has published a comprehensive action plan on financing sustainable growth[2] as well as the European Green Deal.[3] A part of this action plan aims to reduce information asymmetries in the relationships between investors and financial market participants or financial advisors with regard to the integration of sustainability risks, the consideration of adverse sustainability impacts, the promotion of environmental or social characteristics, and sustainable investment, by requiring financial market participants and financial advisers to make precontractual and ongoing disclosures to end investors. The SFDR requires financial market participants and financial advisers to publish written policies on the integration of sustainability risks.

The following sections will provide an overview of how VBV manages sustainability risks together with our strategies for identifying adverse sustainability impacts and integrating sustainability risks into our investment decision-making processes.

Description of sustainability risks and general management of sustainability risks at corporate level[4]

The SFDR sees sustainability risk as an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. VBV takes sustainability risks into consideration in its investment activity and its investment decisions. In line with the FMA Guide on Managing Sustainability Risks , VBV identified the following risks as key sustainability risks:

Climate risks

Climate risks cover all risks arising due to or which are intensified as a result of climate change. Climate-based risks can be roughly divided into physical risks and transition risks.

Physical risks are risks relating to direct damage caused by climate change. Rising sea levels, for example, might render many regions uninhabitable, with potentially grave economic consequences. Physical risks also include drought, forest fires, avalanches, etc., which are capable of causing enormous damage. However, physical risks can also be indirect, such as supply chain disruptions that lead to production stoppages. It is uncertain whether such risks will actually occur but they have the potential to do so with little warning, and it is difficult to estimate their scope, the extent of their adverse impacts and their duration.

Transition risks mainly include statutory regulations or behavioural changes aimed at curbing climate change and promoting the transition to a climate-neutral economy and society. Industries that are particularly

[1] https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement
[2] https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en#action-plan
[3] https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en
[4] Articles 3, 4 and 6 SFDR.
[5] Cf. Article 2(22) SFDR.
[6] Cf. FMA Guide for Managing Sustainability Risks; https://www.fma.gv.at/fma/fma-leitfaeden/

carbon-intensive are already beginning to feel the effects of such measures, which include carbon taxes and emission allowances, as well as emission limit values such as those for the automotive sector. The very existence of entire industries (such as those involved in the production of crude oil) may be in jeopardy or, at the very least, numerous industries may have to make drastic changes requiring substantial investments to be able to reduce emissions in their production processes (such as is the case for steel producers) or to make their production processes carbon neutral.

In addition to the direct impacts of climate risks, climate and sustainability risks can also have a negative effect on traditional risk categories and material impacts on the value of assets and on a company's assets, finances and earnings, as well as on a company's reputation.

Credit risk

Credit risk refers to the risk that the lender incurs a loss because a borrower cannot meet their payment obligations. Sustainability risks may result in countries or companies becoming unable to repay their loans, thereby causing them to default. This may be attributable to physical risks (such as floods caused by climate change) as well as transition risks (for example, the energy transition resulting in the revenue streams of oil-producing countries and oil companies drying up, in some cases even threatening their continued existence).

Market risk

Market risk refers to the risk that existing assets lose value due to negative market trends. An event can have an impact on the market value of assets long before it actually occurs. For example, the share prices of oil companies already factor in potential future revenue and valuation losses due to the energy transition; risk of stranded assets.

Liquidity risk

Due to certain sustainability risks, assets cannot be sold (anymore) without incurring high losses. This might be the case with properties in regions which have become a flood risk area due to climate change. ermögenswerte können auf Grund von Nachhaltigkeitsrisiken nicht mehr bzw. nur mit erheblichen Preisabschlägen verkauft werden, z.B. Immobilien in Regionen, die durch den Klimawandel zum Überschwemmungsgebiet werden.

Operational risk

Company earnings are strained by increasing costs for items such as insurance premiums to provide cover for climate-related damage, as well as higher carbon taxes. Sustainability risks can also have negative effects on the infrastructure of companies (IT infrastructure, production sites, warehouses, etc.).

Legal and reputational risk / governance risk

Deficiencies in corporate governance can be particularly damaging to the image of a company (e.g. exhaust emission tests being manipulated in the automotive sector), diminish its economic success and mean that the company is susceptible to litigation.

Liability risk

Liability risks comprise claims for damages arising out of a failure to comply with environmental or social regulations. The risk can apply both to the causal agent (e.g. companies whose carbon emissions are too high) and to the insurance company insuring the risk.

Strategic risk at target companies

Sustainability risks can lead to the basis of a company's business activities being destroyed or, at the very least, negatively affected, and pose a threat to its continued existence (e.g. suppliers of vehicle components that will no longer be needed in the future).

Systemic risk

The scope of sustainability risks is underestimated, which means they may pose an existential threat to financial market participants of systemic importance, such as a rise in non-performing loans for banks.

Strategies for identifying adverse sustainability impacts[7]

The SFDR defines adverse sustainability impacts as potentially adverse impacts of investment decisions on **sustainability factors** (environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters). VBV is aware of the fact that its investment activity and related investment decisions may lead to adverse sustainability impacts.

VBV has identified the following key factors relating to adverse sustainability impacts:

- Negative effects caused by investments associated with high levels of greenhouse gas emissions and thus fuelling climate change. This includes, in particular, investments in industries that use considerable amounts of fossil fuels and are thus carbon intensive.

- Negative effects caused by investments which fail to adequately comply with internationally recognised social norms and standards for employee matters.

- Negative effects caused by investments which fail to adequately comply with recognised governance rules, such as respect for human rights.

[7]Article 4 SFDR.

VBV takes adverse sustainability impacts into consideration when it comes to its investment activities and its investment decisions. To ensure these are considered in a systematic way, VBV has created appropriate structures and processes with the aim of keeping adverse sustainability impacts as low as possible.

VBV uses the following methods and complies with the following standards to identify, assess and weigh the key adverse sustainability impacts:

- United Nations Sustainable Development Goals (SDGs[8])
- United Nations Global Compact[9]
- Qualitative analysis and evaluation tool to measure the impact of investment processes on sustainability factors
- Identification of the share of assets with carbon exposure
- Calculation of the carbon footprint
- Climate alignment assessments and climate scenario analyses (PACTA[10])
- Stress tests for climate-related risks
- Handling of controversial business practices

Data quality and data availability

Adverse sustainability impacts can only be identified if data of sufficient quality are available. Identifying the adverse sustainability impacts and exposure to sustainability risks of financial products involves VBV drawing on recognised external data providers, independent service providers specialised in sustainability analysis and consulting, and also including the external fund managers working for VBV. The selected external data providers are proven to have a good quality management system with the data being subjected to regular plausibility checks. VBV reviews the data provided by the external fund managers for any irregularities.

If the external data providers are unable to provide certain data or cannot provide them in full or in a sufficient quality, VBV will endeavour to the best of its ability to use suitable alternative data sources or data providers.

Strategies for integrating sustainability risks in investment decision-making processes[11]

Considering and integrating sustainability risks in the investment process is a key part of our investment activity. VBV uses various tools and methods to identify, measure, evaluate and manage sustainability risks and opportunities. Depending on the asset class, VBV uses optimised, revenue and risk-weighted investment solutions which favour specific sustainable approaches.

Before using financial products as defined in the SFDR (which includes investment funds and alternative investment funds) for the first time, VBV obtains information on the product manufacturer's strategies on considering sustainability risks. Before investing in potential financial products, a structured and detailed due diligence process is carried out using further sustainability data and sustainability information to assess their sustainability performance, exposure to sustainability risks and adverse sustainability impacts.

When it comes to other financial instruments (such as stocks and bonds) to be used by VBV for the first time, VBV uses various sustainability data and sustainability information to assess the sustainability risks of these financial instruments. This information includes non-financial reporting provided by the investee companies, ESG ratings from external data providers and the carbon emissions published by the investee companies, taking into account the economic sector the company is operating in.

Paying attention to sustainability risks is part of VBV's investment activity and is something that happens at an early stage when selecting potential financial products and financial instruments. As a matter of principle, our investment activity attaches particular importance to spreading risk and using suitable strategies (such as exclusion criteria, see below) in order to mitigate sustainability risks as far as possible. This limits the number of financial products and financial instruments with potentially high sustainability risks. We are working together with our external fund managers to improve our processes in this respect.

To measure the relevance of sustainability risks, VBV identifies the share of companies disclosing their carbon emissions and the share of assets with carbon exposure and calculates the resulting carbon footprint.

VBV employs the following strategies to integrate and reduce sustainability risks:

[8] SDGs – Sustainable Development Goals of the United Nations; https://sdgs.un.org/goals
[9] https://www.unglobalcompact.org/
[10] PACTA – Paris Agreement Capital Transition Assessment: https://www.transitionmonitor.com/pacta-2020/
[11] Articles 3, 4 and 6 SFDR.

- **Exclusion criteria / standards-based screening and inclusion criteria**

  Exclusion criteria refers to the deliberate exclusion of countries, sectors, activities, companies or products from the investment portfolio because they do not comply with international norms or standards or do not satisfy certain values or ethical principles.

  Inclusion criteria are based on identifying countries, sectors, activities, companies or products for preferred investment based on specific sustainability criteria.

  VBV voluntarily submits its investment decisions to a **strict set of criteria**[12], which includes both exclusion and inclusion criteria. This set of rules was developed back in 2002 together with our Ethics Committee and has been updated and refined on an ongoing basis ever since.

- **ESG integration**
  ESG integration as a holistic approach refers to the explicit and systematic inclusion of sustainability criteria in traditional investment research and risk analysis and their integration in all investment decisions. The short-term focus of investment research is broadened to include key longer-term variables. By submitting potential investment products to a comprehensive due diligence process, VBV makes sure that external fund managers systematically apply ESG criteria in their processes to select securities.

- **Best-in-class approach**
  The best-in-class approach involves scoring the companies of a sector, category or class based on ESG criteria and selecting only those companies that are leading in their sector in terms of environmental, social and ethical factors or only companies ranking above certain thresholds (e.g. only top x%; all issues with a rating of x or higher). This methodology aims at encouraging companies to improve their conduct and assume more responsibility. The best-in-class principle is therefore an approach that intends to exert a positive influence on companies in every sector and, by extension, on the wider economy.

- **Sustainability-focused investing**
  Thematic investing focusses on specific business activities (e.g. renewable energies) selected for their long-term above-average potential for growth. Companies only qualify for thematic investment strategies if their products and services have an explicit focus on sustainability. Thematic investing is often combined with other sustainability policies such as exclusion criteria or engagement.

- **Engagement**
  Engagement refers to the dialogue between investors and companies with the goal of convincing management to take social, ethical and environmental criteria into consideration, thus ringing in a change in mindsets. Engagement can also be aimed at changing a company's controversial business practices, with activities including direct contact with companies and dialogue with other investors, sector-specific representative bodies, NGOs and decision-making bodies from the spheres of politics and business.

- **Impact investing**
  Impact investing means investments aimed at not only generating financial returns but also having a positive social and environmental impact that can be monitored and measured on an ongoing basis. Impact investments are often made in renewable energy and infrastructure, health and education.

- **Divestment**
  Divestment means selling securities or investment products because they do not comply with sustainability-related investment criteria or divesting invested capital due to changed sustainability objectives such as the phasing out of carbon-based fuels.

Sustainability risks can have a negative effect on the value of assets and thus on VBV's investment return. It is expected that, if pursued consistently, the strategies set out above for integrating sustainability risks and considering sustainability factors will lead to lower sustainability risks in the long run and have a positive effect on returns compared with a scenario in which such strategies are not pursued.

Engagement policy

VBV is committed to its responsibility as a sustainable investor and manager of the social security contributions it holds in trust and invests with the aim of promoting good and efficient corporate governance at the investee companies. In its function as a co-owner of companies, VBV has its sights clearly set on the longer term and explicitly encourages the management companies to actively exercise their voting rights. For this purpose, the management companies representing the investment funds engage in dialogue with the individual companies and exercise their shareholder rights by casting their votes at shareholder meetings.

[12] https://www.vorsorgekasse.at/fileadmin/vorsorgekasse/Englische_Unterlagen/VBV_Criteria_for_socially_responsible_investing.pdf

Code for responsible corporate governance

VBV was the first institutional investor in Austria to sign the United Nations' Principles for Responsible Investment (PRI)[13] back in 2008. By doing this, VBV has undertaken to consider and integrate sustainable aspects in its investment process in the form of the six UN PRI in the areas of environmental and social issues, and good corporate governance.

Remuneration policy[14]

Sustainability risks have been integrated accordingly in our remuneration policy, which does not provide incentives for taking excessive sustainability risks.

Measures to implement and manage sustainable investments

VBV has established an appropriate organisational governance structure to implement and manage sustainable investment measures. Sustainability management at the strategic level is responsible for defining goals and ensuring these are evaluated on an ongoing basis, while tasks at the operational level include coordinating sustainable investment agendas, internal sustainability-related knowledge management and staff training by in-house or external experts. Investment, risk management, compliance and internal audit are all involved in implementing and complying with sustainability goals in investing.

The strategy was developed by VBV's Executive Board and is being actively implemented.

We constantly monitor the developments in relation to sustainability risks and sustainability factors at European and national level as well as the associated regulations applicable to the financial services sector. We may adjust this policy if there are changes in the legal framework or if data availability and the methods at our disposal improve.

Vienna, 10 March 2021

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[13] https://www.unpri.org/
[14] Article 5 SFDR.