Nomura Asset Management Europe KVG mbH

Integration of Sustainability Risks – American Century Investment Management, Inc.

10 March 2021

(In this document, capitalised and abbreviated terms have the same definition as in the main Sustainability Risks Policy of Nomura Asset Management Europe KVG mbH).

This document describes the integration of sustainability risks in the investment decision-making process for strategies delegated to American Century Investment Management, Inc. ("ACI"). It should be read in conjunction with the Firm-wide Sustainability Risks Policy.

1. Introduction

1.1 The EU Sustainable Finance Disclosure Regulation ("**SFDR**") requires the Firm to formalise how sustainability is integrated into investment processes, and to make new public and client-facing disclosures on sustainability matters.

1.2 ACI views environmental, social and governance ("ESG") issues as important inputs into fundamental analysis that can help mitigate downside risk or increase upside potential associated with ESG factors otherwise not captured by traditional financial analysis. As skilled active managers, ACI believes its duty is to integrate all material risks and opportunities, including ESG issues, into fundamental analysis and believes doing so will consequently contribute to better investment decisions. ACI's ESG investing approach is detailed further in its publicly available ESG policy.

1.3 ACI's ESG integration approach is an evolution of how it invests, an extension of the relentless pursuit of performance for its clients. The ESG integration process is guided by a three-layer analytical framework that is aligned with a fundamental analysis process and fiduciary duty. The framework is applied to equity and corporate credit strategies and seeks to 1) identify macro-level ESG risks impacting market dynamics, 2) determine which of these risks are relevant at the sector level, and 3) evaluate ESG materiality at the issuer level. For sovereign analysis ACI seeks to 1) identify macro-level ESG risks impacting market dynamics, 2) evaluate the materiality of ESG risks for each sovereign, and 3) weight the materiality of different E, S, and G pillars based on the level of development of each country.

1.4 This document applies as from 10 March 2021.

2. Purpose

2.1 ACI defines Sustainability Risk as follows: 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.

2.2 Clearly, there are potentially material negative impacts on investment values as a consequence of ESG events or inadequate management of ESG risk exposure. Materiality is the foundation of ACI's integration process, as ESG risks likely to impact long-term value are not identical for every sector, industry or country.

2.3 Depending on the sector or country, environmental, social and governance factors across the range of strategies managed by ACI include, but are not limited to:

Environmental: climate change, water stress, carbon toxic emissions, hazardous waste

Social: product safety and quality (supply chain and manufacturing), cybersecurity and data privacy, human capital management.

Governance: business (mis)conduct, board composition, independence and entrenchment, accounting practices, ownership structure, executive pay-for-sustainability performance alignment. For sovereigns, governance factors include but are not limited to: political stability and the absence of violence/terrorism, rule of law, control of corruption, government effectiveness, regulatory quality.

3. Sustainability risk management

3.1 ACI aims to identify sustainability risks as part of its broader analysis of securities. For purposes of this Section 3, the terms "sustainability" and "Environmental, Social and Governance" or "ESG" will be used interchangeably.

3.2 As part of the broader risk management processes when investing, ACI has implemented procedures to

(i) Identify and assess sustainability risks

(ii) Make decisions related to sustainability

(iii) Monitor sustainability risks

(i) Identify and Assess

3.3 When a new investment idea is generated and the initial research begins, the investment analysts will use proprietary ESG research framework. A screening assessment is also applied to global small cap equities and sovereigns.

The framework centres on material ESG risks and seeks to 1) identify macro-level ESG risks impacting market dynamics, 2) determine which of these risks are relevant at the sector level, and 3) evaluate ESG materiality at the issuer level. The analysts utilise a proprietary ESG scorecard application to help identify and assess whether ESG risks could potentially affect the security's underlying fundamental profile. Scores are generated based on quantitative and qualitative environmental and social indicators that are sector-specific and derived from reported data. Governance risk analysis, on the other hand, is based on benchmarking companies against quantitative governance indicators based on company-reported and third party data, regardless of sector. A final ESG quality rating is assigned, comprised of an ESG signal (Overweight, Market-weight, or Underweight) and trend signal (Positive, Stable, or Negative).

The screening tool for small caps utilises third party data and screens for low ESG ratings, severe business ethics and corruption controversies, UN Global Compact compliance and governance relative industry peer rankings. All screening factors are equally weighted. The tool assigns a proprietary risk signal of Low, Moderate or High Risk, based on ACI's dedicated ESG team's interpretation of various risk signals flowing from the data. The investment team reviews the data and risk signals, and when additional information or analysis is required may reach out to the ESG team for further analysis. For top holdings and securities that are rated High Risk, the framework described above is used.

The screening tool for sovereigns in updated monthly and consists of a range of screening factors that are informed by data from a wide range of independent data sources including but not limited to the USEIA, World Bank, UNDP, UNESCO, and WEF. Sovereigns are ranked by screening factor. Overall E, S and G scores are calculated for each sovereign from screening factors weighted using a proprietary model. The investment team reviews the data and when additional information or analysis is required may reach out to the ESG team for further analysis.

3.4 The investment analysts are responsible for incorporating the results of the ESG assessment into the investment thesis for each security. Analysts are responsible for making an assessment on the financial materiality of those ESG risks. Financial materiality is determined in the context of each portfolio's investment philosophy, approach and objectives.

3.5 Where relevant, investment analysts will work closely with the dedicated ESG team in analysing new and existing holdings deemed "issue-oriented." Based on various inputs including ESG-specific controversies, negative externality-prone sector involvement, and best practice ethical exclusion lists, the ESG team generates "ESG Risk Views" on these selected names and shares with the investment analysts.

3.6 While the ESG and Investment Stewardship team considers third-party ESG ratings and quantitative ESG datasets, all of the ESG research tools are developed in house. The ESG data inputs which feed the ESG research tools are updated regularly.

3.7 Where appropriate, as part of the Firm's formal ESG engagement protocol, the investment teams, in collaboration with the ESG team, address with investee company management ESG issues and controversies identified and deemed material to an issuer's long-term financial condition. The objectives for engagement include 1) gaining a more thorough understanding of a company's approach to ESG risk or opportunity management, including controversies and associated remedial action, and 2) encouraging a company's increased transparency around material ESG issues.

(ii) Decide

3.8 The portfolio managers are ultimately responsible for the investment decisions in the portfolios / strategies they manage. Their decisions, in part, will be determined by the financial materiality of the ESG risks and opportunities as identified by the investment analysts based on the ESG integration framework and ESG key issue map. The financial materiality of such risks and opportunities will be based on many factors including, but not limited to, total return expectation and investment time horizon. Depending on the assessment, this may result in a security's exclusion or reduced exposure in the portfolio to reflect the risks. Thus, the final investment decision, as it pertains to ESG matters, is at the discretion of the portfolio manager(s).

3.9 ACI prefers to rely on the fundamental analysis, in-house ESG ratings and decision making undertaken by its investment teams when assessing ESG risks and opportunities. However, ACI does apply portfolio-specific exclusionary screening. The exclusion lists are enforced though coding into the compliance system, and vary in accordance with the strategy being managed:

3.10 The nature of the final investment decision depends on the client and / or strategy. ACI does not subscribe to any generalised industry approach as pertains to ESG decision making, rather decisions are taken on a case-by-case basis, based on the in-house analysis and rating, ACI's ESG approach and the objectives of the specific client / strategy.

(iii) Monitoring

3.11 It is the responsibility of the relevant investment analysts and portfolio managers to monitor the investments made on behalf of clients. This includes financial issues as well as ESG matters. The investment professionals maintain dialogue with investee issuers on multiple matters, including those related to ESG. The ESG team also monitors existing portfolio holdings for potentially material ESG risks as well as controversies on an ongoing basis. Changes in third-party ESG ratings, particularly downgrades, are reviewed, and new information is shared with investment teams.

3.12 Where relevant, in addition to engaging with investee companies, ACI actively exercises the proxy votes for all matters, including those related to ESG.

3.13 Should some new piece of ESG / Sustainability information come to light, the investment teams will assess the impact of the new information in the context of fundamental research.

3.14 ACI believes in transparency, particularly on sustainability / ESG matters. The ESG programme is solutions driven and at the client's request. Relevant ESG policies, insights and information are made public via ACI's website.

4. <u>Further Information</u>

4.1 Further information on the integration process at individual strategy level is contained in the relevant pre-contractual disclosure document/s available from the Firm.