

# **Metzler Asset Management: ESG Risk Policy**

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Frankfurt/Main, January 2023

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## Significance of ESG at Metzler Asset Management

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### 1. ESG philosophy

ESG is short for "Environmental, Social and Governance".

For us, sustainability includes a clear commitment to developing concepts that are feasible in the long term. This relates first and foremost to products and services, but also to providing long-term support to our clients in all matters relating to financial markets. The commitment to a sustainable business strategy is thus a core component of how Metzler Asset Management GmbH sees itself.

Not only do we consider financial criteria in the investment process for our equities, corporate bond and multi-asset funds, we also look at how companies integrate environmental, social and governance aspects. In particular, the aim is to further enhance the risk-return profile\* of our portfolios.

If portfolio management for funds or individual fund segments of Metzler Asset Management GmbH is outsourced to companies outside the Group, it is the responsibility of the respective fund manager to implement a strategy for the inclusion of sustainability risks as part of its pre-investment process.

### 2. ESG integration – selection of individual stocks

The integration of sustainability components is realized throughout the entire investment process. Systematic and sector-specific ESG research processes and screenings for a more sustainable choice of individual stocks and corporate bonds are aimed at improving long-term risk-adjusted performance. Consideration of sustainability components and key figures by portfolio management is mandatory and documented accordingly.

Our team of ESG experts participates regularly in events and conferences focusing on more sustainable investing.

### 3. Exclusion criteria for all equity, corporate bond and multi-asset portfolios

For all equity, corporate bond and multi-asset funds, exclusion criteria are applied based on 120 international norms and conventions. The data mostly stems from MSCI ESG Research. In case of a "very severe controversy," the most serious infringement of one of these standards, we exclude the company from the investment universe. Companies that produce and/or distribute banned weapons are also excluded from our investment universe. The United Nations classifies various weapon systems as an extreme violation against humankind and has thus adopted several conventions to ban these weapons. Banned weapons include anti-personnel

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\* Not warranted or guaranteed

landmines, nuclear weapons, biological and chemical weapons, and cluster munitions. Manufacturers of uranium munitions are also excluded, although they are not yet explicitly banned by conventions.

If requested by the client, we integrate other criteria into the investment process using, for example, data from ISS ESG.

#### **4. ESG – portfolio controlling and risk management**

The MIG21 system (GX Compliance) that is linked with the front office system checks orders ex-ante to ensure compliance with legal, contractual, client-specific and internal restrictions. Companies where exclusion criteria apply (e.g. because they do not comply with the general recognized standards of the United Nations, the UN Global Compact and the International Labor Organization ILO) are blocked in our MIG21 system (GX Compliance) and are thus not eligible for investment.

The following ESG **meetings** are part of our ongoing **risk management**:

- Regular meetings of Metzler Asset Management GmbH's ESG Board
- Monthly performance review meetings with portfolio management, CIO and Fund Risk Controlling. In addition to monthly portfolio analysis (i.e. comparison of risk/return ratios for all funds and their benchmarks), ESG indicators are also evaluated (companies with very severe controversies, i.e. a red flag, at MSCI ESG Research).

#### **5. ESG fund risk controlling**

Metzler's fund risk controlling staff prepares a monthly ESG risk report. This report covers the relevant ESG risk indicators for controversial business practices and violations of global norms, the quality of ESG risk management as well as the physical and transitory climate risks of the assets aggregated at fund level.

Using the "warming potential"\* of the funds and the so-called "climate value at risk\* figure, we examine an asset's resilience to adverse events or scenarios caused by physical, transitory climate risks.

The fund risk report enables us to identify, assess, manage, monitor and report sustainability risks. A risk assessment of the funds is carried out as of the reporting date based on defined threshold values.

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\* Data is based on information from MSCI ESG Research

## 6. ESG reporting

Metzler Asset Management GmbH is continuously expanding its **ESG reporting**. Currently, we provide a detailed review of the portfolios according to social, environmental and governance factors. In addition, Metzler Asset Management GmbH has taken over some of Columbia Threadneedle Investments reports on the milestones achieved in engagement. Other topics include:

- Sales in controversial business areas
- Violations of international norms
- ESG ratings of individual companies
- Climate profile of the capital investment
- Impact of the United Nations Sustainable Development Goals (UN SDGs) on the portfolio
- Analysis in the context of regulations
- Transparency initiatives
- ESG in a country profile (government bonds).

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