Sustainable Approach for Sub-Fund FDC SICAV Global Bonds - Active 3

SFDR classification

The Sub-Fund is classified as an Article 8 Sub-Fund as it promotes environmental and social characteristics and limits investments to companies that follow good governance practices.

Characteristics

As part of the investment process, the Fund Manager considers a variety of environmental and social characteristics, as detailed below. These environmental and social characteristics are considered using a proprietary Fund Manager ESG[1] rating system (the NB ESG Quotient). The NB ESG Quotient is built around the concept of sector specific ESG risk. Foundational to the NB ESG Quotient is the proprietary Fund Manager materiality matrix (the NB materiality matrix), which focuses on the ESG characteristics that are considered to be the most material drivers of ESG risk for each sector. The NB materiality matrix enables the Fund Manager's investment team to derive the NB ESG Quotient rating, to compare sectors and companies relative to their environmental and social characteristics.

The environmental and social characteristics promoted by this Sub-Fund are:

- ***Environmental Characteristics***: biodiversity & responsible land usage; carbon footprint reduction; climate change adaptation; continuing professional development participation; energy management; environmental management; green procurement policies; greenhouse gas (GHG) emissions; operating incidents; opportunities in clean technologies; opportunities in renewable technologies; toxic emissions & waste; and water stress; and
- ***Social Characteristics***: community involvement programs; anti-discrimination policies; health & safety; human capital development; labour management; privacy & data security; product safety & quality; regulatory quality; society & community incidents; and supply chain incidents.

ESG characteristics are considered at four different levels by the Fund Manager for the Sub-Fund:

a) Best in class approach

The NB ESG Quotient ratings are generated for issuers in the Sub-Fund. The NB ESG Quotient rating for issuers is utilised to help prioritise corporate and sovereign issuers with a favourable and/or an improving NB ESG Quotient and to identify risks and opportunities in the overall credit and value assessment.
The NB ESG Quotient is a key component of the internal credit ratings and can help to identify business risks (including ESG and sustainability risks), which would cause deterioration in an issuer's credit profile. Internal credit ratings are notched up or down based on the NB ESG Quotient rating, and this is monitored by the Fund Manager as an important component of the investment process for the Sub-Fund.

[1] The Neuberger Berman ESG Policy is available here.

By integrating the Fund Manager's proprietary ESG analysis (the NB ESG Quotient) into the internal credit ratings, there is a direct link between the analysis of material ESG characteristics and the portfolio construction of the Sub-Fund.

In addition, the Sub-Fund's exposure to sovereign debt will target the following environmental and social objectives by investing in government issuers which:

- demonstrate a better preparedness and resilience for climate transition risks; and
- show progress towards achieving the United Nation Sustainable Development Goals, with a particular focus on improving access to and quality of public health and education.

b) Promotion of climate objectives

The Fund Manager intends to reduce the Sub-Fund's carbon footprint across scope 1, 2, and material scope 3 GHG emissions[2], equating to a 50% reduction by 2030 relative to a 2019 baseline and a subsequent decline to net zero by 2050. The 2019 baseline may be subject to re-calculation as data quality and disclosure expands over time, particularly with respect to scope 3 emissions.

For sovereign bonds, the Fund Manager will target investment in governments which demonstrate a better preparedness and resilience for climate transition risks. This is measured through the Fund Manager's sovereign climate transition risk indicator, which combines data focused on climate risk mitigation, climate adaptation and GHG emissions.

c) Engagement

The Fund Manager engages directly with management teams of issuers through a robust ESG engagement program. The Fund Manager views this direct engagement with issuers, as an essential part of its investment process (including the investment selection process). Issuers that are not receptive to engagement are less likely to be held (or to continue to be held) by the Sub-Fund.

This program is focused on in-person meetings and conference calls to understand sustainability and wider ESG risks, opportunities, and assess good corporate governance practices of issuers. As part of the direct engagement process, the Fund Manager may set objectives for the issuers to attain. These objectives as well as the issuers' progress with respect to same are monitored and tracked by the Fund Manager through an internal engagement tracker.

In addition, constructive engagements are undertaken with issuers which have high impact controversies, or which have a low NB ESG Quotient rating, in order to assess whether those violations, controversies or what the Fund Manager deems as weak ESG efforts, are being addressed adequately.

[2] **Scope 1** emissions are direct emissions from an issuer's owned or controlled sources (such as emissions created directly by the issuer's business processes or from vehicles owned by the issuer). **Scope 2** emissions are indirect emissions from the generation of electricity, steam, heating and cooling consumed by the issuer. **Scope 3** emissions are all other indirect emissions that occur in an issuer's value chain (such as emissions from products or services consumed by the issuer, disposal of its waste, employee commuting, distribution and transport of its products or its investments).

The Fund Manager firmly believes this consistent engagement with issuers can help reduce credit risk and promote positive sustainable corporate change. It is an important tool to identify and better understand an issuer's risk factors (including sustainability risks) and performance. The Fund Manager also uses it to promote change, when necessary, which it believes will result in positive outcomes for creditors and broader stakeholders. Direct engagement when paired with other inputs, creates a feedback loop that allows analysts in the Fund Manager's investment team to evolve their ESG scoring process and prioritise risks that are most relevant to a sector.

d) Sectoral exclusion policies:

To ensure that the environmental and/or social characteristics promoted by the Sub-Fund can be attained, the Sub-Fund will not invest in securities issued by issuers whose activities breach the: i) Fund Manager's Controversial Weapons Policy; ii) the Fund Manager's Thermal Coal Involvement Policy; iii) the Fund Manager's Global Standards Policy; or iv) the Fund Manager's Sustainable Exclusion Policy.

Controversial Weapons Policy[3]

The Controversial Weapons Policy seeks to prohibit a number of investments in securities that have been identified as having corporate involvement in the end manufacture or manufacture of intended use components of controversial weapons.

Thermal Coal Involvement Policy[4]

The Thermal Coal Involvement Policy prohibits investment positions in securities issued by companies that (i) derive more than 25% of their revenue from thermal coal mining; or (ii) are expanding new thermal coal power generation.

The Global Standards Policy[5]

The Global Standards Policy prohibits investment in securities issued by issuers whose activities breach: (i) the United Nations Global Compact Principles (UNGC); (ii) the OECD Guidelines for Multinational Enterprises; (iii) the United Nations Guiding Principles on Business and Human Rights; or (iv) the International Labour Standards Conventions.

The Sustainable Exclusion Policy[6]

The Sustainable Exclusion Policy prohibits investment in securities that the Fund Manager believes do not meet the following criteria:

[3] The Neuberger Berman Controversial Weapons Policy is available here.

[4] The Neuberger Berman Thermal Coal Involvement Policy is available here.

[5] The Neuberger Berman Global Standards Policy is available here.

[6] The Neuberger Berman Sustainable Exclusion Policy is available here.

a) **Human Rights.** Corporations are expected to uphold fundamental responsibilities as defined by the UNGC in regards to human rights, labour, the environment and anti-corruption. The Sub-Fund will not invest in the securities of issuers that violate the principles of the UNGC and compliance with the UNGC will continually be monitored. Where an existing holding is deemed to violate the UNGC through change or evolution, the Fund Manager will establish a dialogue with the issuer, to understand what led to the violation and what remediation is taking place. If, however, the Fund Manager is not satisfied about the speed and satisfactory extent of the remediation after 3 years, the securities will be disposed of.

b) **Tobacco.** The Sub-Fund is prohibited from purchasing the securities of issuers that are involved in tobacco production such as cigars, cigarettes, e-cigarettes, smokeless tobacco, dissolvable and chewing tobacco. This also includes issuers that grow or process raw tobacco leaves.

c) Civilian Firearms. The Sub-Fund is prohibited from purchasing the securities of issuers that are involved in the manufacturing of civilian firearms.

d) Private Prisons. The Sub-Fund is prohibited from purchasing the securities of issuers that own, operate or primarily provide integral services to private prisons, given significant social controversy, reputational risks, dependency on their local government policies and facilities which are not easily reconfigurable for alternate uses.

e) Fossil Fuels. The Sub-Fund will seek to minimise or neutralise its exposure to certain pieces of the fossil fuel value chain, owing to the varied contribution to climate and environmental risk.

Coal and unconventional oil and gas supply. The Sub-Fund is prohibited from purchasing the securities of issuers which derive substantial revenue from the extraction of coal or the use of unconventional methods to extract oil and gas. Substantial revenue is defined for this purpose as follows:

- **Thermal coal.** Issuers should not derive more than 10% of revenue from the mining of thermal coal.
- **Unconventional oil supply (Oil Sands).** Issuers should not derive more than 10% of revenue from oil sands extraction.

Electricity generation. The Sub-Fund will only purchase the securities of issuers for which power generation makes up more than 10% of revenue, where they are aligned with a lower carbon emissions economy. The Sub-Fund is therefore prohibited from investing in generators where:

- **Thermal Coal.** More than 30% of MWh generation is derived from thermal coal.
- **Liquid Fuels (Oil).** More than 30% of MWh generation is derived from liquid fuels (oil).
- **Natural Gas Electricity Generation.** More than 90% of MWh generation is derived from natural gas.

This threshold may decline over time, to align with a glide path to greater renewables penetration.

Conventional oil and gas supply. The Sub-Fund is prohibited from investing in the securities of oil and gas producers for whom natural gas makes up less than 20% of their reserves.

Further detail on these policies and how they apply to the Sub-Fund is available via the following link: https://www.nb.com/en/fr/esg/reporting-and-policies

Under the Global Standards Policy, the investments held by the Sub-Fund will not invest in securities issued by issuers whose activities breach: (i) the United Nations Global Compact Principles; (ii) the OECD Guidelines for Multinational Enterprises; (iii) the United Nations Guiding Principles on Business and Human Rights; or (iv) the International Labour Standards Conventions.

The Sub-Fund will not invest in sovereign issuers which the Fund Manager identifies as having weak ESG practices, such issuers will be excluded from the Sub-Fund using the Fund Manager's NB ESG Quotient (which includes a sovereign screening tool).

Such exclusions will be based on a number of ESG criteria including the following:

- Sovereign issuers which are ranked in the bottom decile based on the NB ESG Quotient, with no near-term improvement prospects;
- Sovereign issuers which are ranked in the bottom quartile and deteriorating based on the proprietary human rights indicator of the Fund Manager or where top officials have been sanctioned by the UN Security Council based on human rights violations;
- Sovereign issuers which are assessed as having high and increasing GHG intensity levels; and
- Sovereign issuers which are non-compliant with the standard put forth by the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes, or sovereign issuers that are classified as a high-risk jurisdiction subject to a call for action by the Financial Action Task Force (FATF).

Sustainability risks

Sustainability risks within the meaning of SFDR are environmental, social or governance events or conditions that, if they occur, could cause an actual or a potential material negative impact on the value of an investment, including but not limited to, risks stemming from climate change, natural resource depletion, environmental degradation, human rights abuses, bribery, corruption and social and employee matters.

To minimise the impact of sustainability risks on the Sub-Fund's return, the Fund Manager integrates the systematic consideration of ESG or sustainability risks into the investment decision-making process of the Sub-Fund both pre- and post-investment. The Fund Manager also aims to limit the potential risk posed by sustainability risks through the responsible and proper management of the Sub-Fund.