PRESS RELEASE

We are pleased to inform you that Fonds de compensation commun au régime général de pension (FDC) has published its "Sustainable Investor Report 2024" on its website www.fdc.lu.

As an institutional asset owner, FDC is aware of its ecological, social and good governance responsibilities. To draw up a transparent inventory of its responsible investor policy and publicly confirm its commitment as a responsible investor, FDC's first Sustainable Investor Report was published in 2020. Today, FDC's responsible investor policy has further evolved and deepened and is based on several pillars, covering different themes and at varying levels of granularity. The second edition of FDC's Sustainable Investor Report exposes given pillars in detail.

1. Allowed investment universe and exclusions

Since 2011, FDC has put into practice a normative exclusion of companies that do not comply with international standards as enshrined in the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct as well as in their underlying conventions and treaties. These cover human rights, the environment, international labour standards and the fight against corruption. Equally excluded are companies involved in controversial weapons. In 2023, FDC took the decision to also exclude companies deemed to have a status of being "under observation for an extended period" with "no concrete prospects of improvement". As a result, almost 140 companies are excluded for investment and some 170 companies are under enhanced observation.

2. Sustainability at asset management and asset manager level

FDC is delegating the management of its assets to external portfolio managers who are committed to responsible investing as an organisation. Since 2010, FDC integrates sustainable criteria in the selection process of its asset managers. From 2017 onwards, all FDC's actively managed mandates offered to tender have had to integrate a sustainable approach into their investment strategy.

Consequently, FDC asset managers are professionally set up, with robust in-house ESG teams, and are specialised to assess and evaluate financial and extra-financial risks deemed relevant to their respective investment strategy. Within FDC's actively managed mandates, ESG criteria are integrated in the financial analysis and portfolio construction process, mostly via dedicated ESG approaches. In addition, consideration of specific carbon criteria or targets, proprietary exclusions or sustainable certifications are often part of an asset manager's approach. As a result, it is worth mentioning that:

- ESG scores assigned to FDC's portfolios are at least equal to the scores of the respective benchmarks whilst 85% of actively managed assets have a better ESG score than the benchmarks, the latter being representatives of the global markets in which FDC can invest;
- asset manager specific exclusion criteria are applied within 95% of FDC's actively managed assets and two indexed sub-funds, irrespective of FDC's exclusion list to be bindingly applied. On average, almost 260 securities are excluded on top of FDC's exclusion list;
- FDC's asset managers are members of various initiatives active in the field of sustainable development and responsible investment that FDC believes are particularly widespread among asset managers. On average, an asset manager is member of 14 initiatives, whilst individual memberships can range between 4 and 21. In 2023, FDC's asset managers were all signatories of the UN's Principles for Responsible Investment, members of the Net Zero Asset Manager initiative as well as investor participants within the Climate Action 100+ initiative;
- each UN Sustainable Development Goal is supported in the management of FDC's assets. These goals cover a wide range of sustainable development aspects and combine economic, environmental, social and good corporate governance objectives;
- FDC's asset managers all pursue an engagement policy in general consistent with the sustainability goals they publicly support and carry out engagement activities within the mandates they manage on FDC's behalf.

3. <u>Overarching criteria: LuxFLAG labels and SFDR compliance</u>

Whilst the implemented sustainable approaches of FDC's asset managers may vary, FDC endeavours to implement overarching criteria. These criteria are the LuxFLAG label eligibility criteria as well as voluntary compliance with the SFDR regulation. At the end of 2023, 15 sub-funds representing 100% of FDC's actively managed listed assets, representing more than 11 billion €, held a LuxFLAG label. The same 15 sub-funds and 1 indexed sub-fund, amounting to 11.6 billion €, were categorised as an SFDR Article 8 or 9 product.

4. <u>Dedicated investments with positive impact</u>

In early 2019, FDC launched a sub-fund investing exclusively in green bonds. Via this sub-fund, amounting to 300 million € at the end of September 2024, FDC is financing projects with a positive impact on the environment. At the same time, FDC launched a sub-fund that invests only in companies that intend to generate a social or environmental impact, in addition to a financial return. At the end of September 2024, almost 480 million € were invested in this way.

In order not to limit the consideration of sustainable criteria to active management only, an indexed equity sub-fund complying with the Paris Agreement was launched in May 2022 representing 640 million € at the end of September 2024. A second indexed Paris Aligned sub-fund, for bonds, was started in January 2024 with 500 million €. As a most recent step, a new sub-fund considering investments in infrastructure assets with a focus on clean energy with a target size of 500 million euros is foreseen to be launched in early 2025.

In order to fulfil its social commitment in Luxembourg, FDC is the second-most important shareholder of SNHBM, a social property developer. In that way, FDC contributed in 2023 to the launch of 230 affordable housing units as well as the realisation of 160 affordable housing units. Additionally, FDC ensures that particular residential units are made available to beneficiaries of housing aid. Further real estate projects in FDC's pipeline do foresee the construction of additional affordable housing units representing some 93,000 m2 of gross floor area. Finally, FDC owns 691 hectares of forest partially declared natural reserve.

5. Climate analyses and inherent risk monitoring

On an individual basis, FDC's asset managers carry out detailed analysis and assessment of climate metrics and risks. The use of external service providers and tools allows FDC to have a more consolidated and independent view of climate metrics and risks and appropriate means to monitor and assess them. Below are the key facts of the latest climate audit detailed in FDC's second Responsible Investor Report:

- for quasi all metrics and emission scopes considered, FDC's portfolios show a lower carbon footprint than their benchmarks. Hence, FDC's portfolios contribute less to climate change, are less exposed to carbon-intensive companies, show a lower dependence on the production and consumption of carbon-intensive goods and services on average as well as a lower exposure to carbon-intensive countries;
- in comparison to the climate audit of 2022, FDC was able to significantly decrease the carbon footprints of its portfolios. Depending on the metric and scopes considered, decreases vary between -7% and -32%. In addition, the carbon metrics reached their lowest levels since FDC's first annual carbon audit of 2019;
- "stranded asset" risk has further been mitigated. The weight of the companies in FDC's aggregated equities and fixed income portfolio deriving any revenue from fossil fuel related activities is limited to 7%. In 2019, given exposure still amounted to 9%. In addition, FDC's aggregated portfolio continued to show a lower exposure to fossil fuel activities as well as coal only compared to the benchmark. In terms of carbon emissions embedded within company owned fossil fuel reserves which can be considered "unburnable" if 2°C targets are to be achieved as well capital expenditures set aside for future fossil fuel related activities, FDC's aggregated portfolio shows again a positive performance versus the benchmark;
- in comparison to the first transition pathway analysis based on data as of year-end 2019, the warming level of FDC's equities portfolio moved from an "above 3°C" to a "2 to 3°C" level whereas FDC's fixed income portfolio decreased from a "2 to 3°C" to a "1.5 to 2°C" level. On a consolidated level, these improvements have not yet had sufficient impact to also allow for

a move to a lower bandwidth and thus FDC's aggregated portfolio remains within a "2 to 3°C" level. However, improvement within the aggregated portfolio can be made apparent when considering the over-budget in terms of tons of CO_2 equivalents (tCO_2e) to comply with a 2°C pathway. This over-budget has been reduced from more than 13% at the end of 2019 to now 5%. This is all the more remarkable as the assets submitted for the alignment study have grown by more than 20%. Thus, FDC was able to significantly orientate and reallocate capital towards companies with carbon budgets in compliance with a 2°C or even a lower pathway. Compared to the benchmarks, the global warming levels of FDC's portfolios are equal;

- the exposure of FDC's aggregated equities and fixed income portfolio to companies with fossil fuel energy revenues is less than 1%, exposure below the benchmark's exposure;
- the energy mixes of FDC's aggregated equities and fixed income portfolio as well as sovereign portfolio are already close to 2030 energy mixes considered consistent with a 2°C global warming scenario based on data from the International Energy Agency (IEA);
- transition and physical risks have also been further mitigated. The impact of future carbon costs and earnings at risk have further decreased compared to 2019 while remaining below benchmark levels. For the aggregated equities and fixed income portfolio, these costs are representing only some 0.5% of the aggregated portfolio submitted for analysis. In relation to physical risks such as extreme cold, droughts or wildfires, possible climate-linked losses within FDC's aggregated equities and fixed portfolio are estimated to a share limited to 3.5%.

6. Implementation of an engagement policy

FDC's responsible investor policy puts particular emphasis on engagement and values asset managers that actively seek dialogue with companies and that have established a consistent and wide-ranging engagement policy. In addition and from an asset owner perspective, FDC's engagement policy is put into practice through a membership of the IIGCC and by being signatory to the Climate Action 100+ initiative as a supporting asset owner.

7. Sustainability at direct real estate level

Direct real estate investments also have an impact on society and the environment. Since 2010, new buildings and building renovations launched by FDC have been subject to high-level certifications. In addition, the electrical energy supply of all administrative buildings owned and managed directly by FDC is exclusively based on renewable energy.

To conclude, FDC sees its sustainable investment policy absolutely confirmed, with its gradual and sensible reinforcements and changes over the years. This second dedicated report, the "Sustainable Investor Report 2024", clearly shows that further significant improvements have been achieved by FDC. Indeed, over the last 4 years, sound governance, monitoring and risk management have made it possible for FDC to create significant positive impacts, further mitigate non-financial risks, reduce carbon footprints as well as continue to move towards a 2°C aligned investment portfolio.