Goldman Sachs Asset Management

TOWARDS SUSTAINABILITY DOCUMENT

Exclusively applicable for Goldman Sachs Asset Management funds rewarded with the Towards Sustainability ("TS") label

For professional use only

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SCOPE

The content of this document only applies to funds managed by Goldman Sachs Asset Management that have been awarded the Belgian Towards Sustainability (TS) label.[1]

Content

This document summarizes our approach towards controversial conduct and controversial activities for the funds that are in scope. This is followed by an explanation of the underlying criteria that apply to the funds bearing the TS label. The last part of the document presents the position applied on potentially unsustainable practices and topics that are the subject of societal debate or controversy.[2]

1 The track record information and operational commitments on this page also relate to Goldman Sachs's sustainability practices and track record at an organizational and investment team level, which may not be reflected in the portfolio of the product(s).

2 Further information in relation to the sustainability-related aspects of the Fund can be found at: https://www.gsam.com/responsible-investing/nl-BE/professional/funds/documents.

CONTROVERSIAL CONDUCT AND CONTROVERSIAL ACTIVITIES

The criteria in this document reflect the relevant laws and internationally recognized standards such as the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises (OECD Guidelines) as well as the way of working for the TS labelled funds, as prescribed by the standards of the TS label.

On controversial conduct

The Global Stewardship Team has developed a process for evaluating companies that have been identified by third party data providers as in violation of the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises (amongst other global norms), and/or companies which are applying poor governance practices.

We also believe that the global norms align with related frameworks including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

Our process centers on four primary steps:

- **Identify**: We leverage multiple third-party data providers to generate a list of potential violators of Global Norms.
- **Review**: Using the vendor generated list, we evaluate each of the issues raised at the companies, considering the external data providers' assessment as well as additional sources to create an assessment.
- **Evaluate**: Using the results of the review, we assign each company to one of three tiers:
  - **Tier 1**: We believe that this company has an ongoing global norms violation with insufficient remediation
  - **Tier 2**: The company may have had a global norms violation, but some remediation has taken place OR there is a serious allegation of wrongdoing where the situation is still developing
  - **Tier 3**: The company is not currently considered a global norms violator
- **Monitor**: We review and retier the list on a semi-annual basis, and seek to conduct ongoing monitoring to identify potential new issues.

Following the tiering process, the Global Stewardship Team seeks to take appropriate stewardship actions related to the companies, for example seeking to engage with companies or take voting action as appropriate. The investment teams of the funds that have the label may decide to exclude Tier 1 and 2 companies.

On controversial activities

The section below sets out our restriction criteria for TS labelled products in more detail.

Controversial Weapons

Certain weapons are considered to be controversial due to their disproportionate and indiscriminate impact on the civilian population. This is the case for anti-personnel landmines, cluster munitions, biological weapons, chemical weapons, depleted uranium ammunitions, and white phosphorus weapons.

Companies that are involved in activities such as production, research and development, maintenance, system integration and testing of products or services are restricted. In defining these weapons, we follow widely accepted international conventions.

These restrictions are applied via third party research on controversial weapons. In addition, we comply with the Belgian law banning any financing of companies involved in anti-personnel mines, submunition or depleted uranium.

We have a zero-tolerance policy on controversial weapon involvement for the funds in scope. For companies identified as involved as described above, the threshold is set at 0% of revenues.

Separate criteria have been developed for nuclear weapons in addition to the criteria above, since they have a different character from other weapon types. The ownership, production, proliferation and use of nuclear weapons are strictly regulated and monitored via the Non-Proliferation Treaty (NPT) of 1968, and if necessary sanctioned by the international community. For the TS labelled funds, companies are restricted that are involved in nuclear weapon activities. These restrictions are applied via third party research on controversial weapons.

Civilian firearms

Involvement in civilian firearms is restricted because of their link with violence, crime and corruption.
This weapon restriction is applied via the product involvement screening of a third part data provider. The applied revenue threshold is on the manufacture and retail of these weapons.

Tobacco production

Smoking and vaping[3] can place a burden on society from a public health and economic perspective. We therefore restrict companies that are involved in the production of tobacco products and e-cigarettes and products and services that are related to the fabrication of tobacco products or e-cigarettes.

Coal mining and electricity generation

Mining is an important industry in the global economy, occupying a primary position at the start of the resource supply chain. However, we recognize that mining has the potential to cause irreversible environmental and social impacts. Some projects are inherently higher risk because they are located in areas of ecological or social sensitivity, such as the rainforest or areas with indigenous peoples. Coal mining involves a number of extraction methods, at both the surface and underground level. Mountaintop removal (MTR), a form of surface mining used in the Appalachian region of the United States, has particularly significant impacts on ecosystems, water quality and local communities.

Thermal coal is predominantly used for power and heat generation. Of all fossil fuel energy sources, thermal coal generates the highest volume of greenhouse gas emissions per kilowatt-hour generated when combusted. Meeting the Paris Agreement ambition will require companies to diversify away from thermal coal mining and reduce overall carbon emissions from their operations and products. For the TS labelled funds we therefore restrict companies whose business models are dependent on the mining, exploration, extraction, transportation and distribution or refining of thermal coal.[4]

Strategies in scope of this document will not finance electricity utilities constructing additional coal-based power production installations. We may include in our due diligence process the decommissioning of old power generation assets and additional investment in renewables.

Conventional oil and gas

The oil and gas sector is commonly divided into conventional and unconventional production methods. Historically, exploration and production of oil and gas has focused on sources that are relatively easily accessible. This refers to conventional oil and gas: hydrocarbons that flow near the surface and can be obtained through traditional well extraction. Conventional oil and gas are liquid at atmospheric temperature and pressure conditions, and therefore flows without additional stimulation. Generally, conventional oil and gas production tends to be less expensive than unconventional methods and requires little in the way of processing before being developed into petroleum products.

Oil and gas operations (upstream, midstream and downstream) present a wide range of environmental and social considerations. Conventional exploration and development of new oil and gas assets can take place in more complex and high-risk operating environments, including deep offshore waters, remote locations and countries with weaker governance structures.

Restrictions on conventional oil and gas are applied via the product involvement screening of a third-party data provider.

Unconventional oil & gas

Unconventional oil and gas production poses additional environmental and social risks compared with conventional activities. Below we clarify the various types of unconventional oil and gas production and describe the corresponding risks and restriction criteria.

Oil sands

Oil sands, also known as tar sands or bituminous sands, are sandstone or carbonate formations containing a naturally occurring viscous form of petroleum (bitumen) with large deposits found in Canada's Province of Alberta. In many cases, significant amounts of energy and water are necessary to extract and upgrade bitumen, and there is a potential for impacts on boreal forests and local communities. For the TS labelled funds, we therefore restrict companies whose business models are dependent on the extraction of oil sands.

Shale oil and shale gas

The rapid expansion of hydraulic fracturing has contributed to the expansion of energy resources, particularly in the U.S., along with greater affordability of energy for consumers and industry, job creation and economic growth. But it has also come with increasing concerns related to water consumption, impact on water quality, wastewater disposal methods, potential seismic impacts, air emissions (including methane) and local community impacts. For the TS labelled funds we therefore restrict companies whose business models are dependent on shale oil and gas.

Arctic drilling

Oil development in the Arctic Circle is prone to harsh operating conditions, sea ice, permafrost coverage, and potential impacts to critical natural habitats for endangered species. The unique and fragile ecosystems of the Arctic region also support the subsistence livelihoods of indigenous peoples groups that have populated certain areas in the region for centuries. As a result, offshore drilling in the Arctic is exposed to various environmental and social risks.

Restrictions on the unconventional oil and gas sector are applied via the product involvement screening of a third-party data provider.

Nuclear energy

The debate regarding the use of nuclear power as an energy source continues to be a topic of interest and has become increasingly important due to the role it plays in climate change mitigation. Not only is nuclear power one of the

3 5 Vaping Facts You Need to Know | Johns Hopkins Medicine.
4 Metallurgical coal or coking coal (a key raw material in steel production) is not part of this criterion.

lowest emitters of greenhouse gas emissions among all forms of electricity generation, it also provides a reliable energy source in a world with increasing energy demands. Despite this, the use of nuclear power poses various risks, such as radiation exposure, potentially hazardous storage, high levels of water usage and even links to terrorist activities. Finding the right balance between these risks and benefits for us as investors is a challenging task, but an important one to address.

Nuclear power can play an important role in reducing greenhouse gas emissions and hence can contribute to combatting climate change. The policy trend limiting the role of nuclear power in advanced economies, combined with expiring energy plants, leads to uncertainty about the security of energy supply. Countries dependent on energy production from nuclear would either have to rely on fossil fuels and natural gas, or ramp up renewable energy. While renewables are more environmentally friendly, they offer intermittent energy sources (i.e. solar and wind) and have a lower production density in terms of space utilisation. Further, a sudden switch from nuclear to generating power from 100% renewable energy is not realistic due to insufficient ramp up capacity to make up for the shortfall, as well as significant cost implications flowing through to the end user. On the other hand, reverting to fossil fuels would have negative environmental impact.

Restrictions on nuclear energy for TS labelled funds are applied via the product involvement screening on nuclear power generation of a third-party data provider.

Sovereigns

In our ESG due diligence for TS labelled funds we focus on institutional and governance strength of a country relying on internationally recognised data such as the World Bank Governance Indicators (WBGI) and our internal framework of evaluating the quality of policymakers.

The WBGI is a rich data source covering more than 200 countries over more than 20 years across six pillars covering issues on Voice and accountability, Political Stability and Absence of Violence/Terrorism, Government effectiveness, Regulatory quality, Rule of law and Control of corruption. Voice and accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

- Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism.
- Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
- Regulatory quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
- Rule of law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.
- Control of corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

In addition to governance, we also focus on social and environmental factors. The environmental pillar captures a broad scope of environmental risks, including climate change, physical and transition risks, biodiversity, air pollution and water scarcity. The social pillar assesses metrics to evaluate the social fabric of the country covering metrics on inequality, quality of public services delivery, youth unemployment, innovation etc.

Oppressive regimes restriction application

For the TS labelled funds sovereign issuers involved in severe and systematic violations of human rights and thus countries against which arms embargoes have been issued by the UN Security Council are restricted. It should be noted that when a country is restricted based on the stipulations of this document, this does not automatically lead to the restriction of corporate issuers that are active in the restricted country.

SPECIFICATION OF THE TOWARDS SUSTAINABILITY CRITERIA

An overview of the scope and the criteria of the label

The eligibility of all assets in the portfolio shall be subject to selected ESG strategies, except for purely technical assets. The proportion of technical assets[5] shall not structurally be more than 20% of the portfolio. This means that at least 80% of the portfolio must be subject to ESG-screening and contribute to the ESG characteristics promoted by the portfolio.

A sustainable financial portfolio shall make use of the following (4) strategies:
1. ESG integration[6]
2. Normative screening
3. Exclusion
4. One main additional strategy

The additional strategies can have varying degrees of selectivity or focus:
1. Sustainability themed investing
   A sustainability themed investing strategy shall select investments using one or more well-defined themes based on relevant frameworks, recognized by the CLA, to measure contribution to sustainability factors (EU Taxonomy, SDGs, EU Green Bond Standard, ICMA Social Bond Principles, etc). Additionally the portfolio classifies as an SFDR art. 9 portfolio and has sustainability themed investing as a strategy.
2. Impact investing
   An impact investment strategy shall apply the 9 Principles of the Operating Principles for Impact Management (OPIM) or align with the 4 'Core Characteristics of Impact Investing' as formulated by the Global Impact Investing Network (GIIN).
3. Objective to do better than a benchmark on one or more ESG indicators
   The manager shall formulate a target for the portfolio to perform on the selected KPI(s) at least 15% better than the benchmark if it concerns a non-ESG benchmark.

Next to the required minimum of 4 ESG strategies, the non-technical part of the portfolio shall also comply with the expectations regarding:
- **GHG intensity**: The GHG intensity of the corporate part of the portfolio shall be at least better than the GHG intensity of the portfolio's reference benchmark(s)
- **Sustainable investments**: All non-technical assets shall contribute to the ESG characteristics promoted by the portfolio or be sustainable investments.

Exemption of sovereign-issued instruments:
For the part of the portfolio that consist of (non-use-of-proceeds) sovereign-issued instruments that comply with the sovereign criteria only ESG integration is required as a strategy. No additional strategy is required.

Sector criteria

These criteria refer to the below mentioned considered controversial activities, to their value chain and to the governance of the business activities. The business criteria can consist of indicators to measure avoidance of harm as well as indicators to measure transition.

General approach

The manager shall evaluate any company (from any sector) that is part of the portfolio on eligibility and compliance with the manager's sustainable investment policies for that portfolio. For companies involved in specific activities, the sector requirements are as can be found below.

Scope: Companies involved in harmful activities that could lead to adverse impacts on sustainability factors, or companies providing dedicated products or services to enable these activities.

Value chain to be taken into account:
i. Companies with direct involvement (e.g., via revenue or investment) in the execution of controversial activities
ii. Companies with more than 25% of their revenues derived from bespoke products, equipment or services dedicated to enabling the execution of controversial activities. Products/services aimed at mitigating or reducing negative effects of these activities should not be included.
iii. On a best effort basis, companies with more than 50% of their revenues derived from companies in i. or ii.

Companies involved in multiple controversial activities will need to comply with all relevant requirements.

5 Considered technical assets are: Cash and cash-like assets (e.g., money market funds) used for liquidity management or hedging, Derivatives used for efficient portfolio management or hedging, Index-based products based on broad market indices used for hedging (See 4.6).

6 As part of our investment process, we may integrate ESG factors alongside traditional factors. The identification of a risk related to an ESG factor will not necessarily exclude a particular investment that, in our view, is otherwise suitable and attractively priced for investment, and we may invest in an issuer without integrating ESG factors or considerations into our investment process. Moreover, ESG information, whether from an external and/or internal source, is, by nature and in many instances, based on a qualitative and subjective assessment. An element of subjectivity and discretion is therefore inherent to the interpretation and use of ESG data. The relevance and weightings of specific ESG factors to or within the investment process vary across asset classes, sectors and strategies and no one factor or consideration is determinative. Goldman Sachs Asset Management in its sole discretion and without notice may periodically update or change the process for conducting its ESG assessments and implementation of its ESG views in portfolios, including the format and content of such analysis and the tools and/or data used to perform such analysis. Accordingly, the type of assessments depicted here may not be performed for every portfolio holding. The process for conducting ESG assessments and implementation of ESG views in portfolios, including the format and content of such analysis and the tools and/or data used to perform such analysis, may also vary among portfolio management teams.

Tobacco

a) Activities in scope

- Production of tobacco, tobacco products or e-cigarettes.
- Wholesale trading of tobacco products or e-cigarettes.

b) Eligibility criteria for companies performing activities under a)

i. Governance

- The company shall have a strategy to reduce the adverse impact of its activities and to increase its contributing activities, if applicable.

ii. Transition of operations

- The company shall derive less than 5% of its revenues from activities under a).

c) Eligibility criteria for companies enabling activities under a)

- The company shall derive less than 25% of its revenues from bespoke products, equipment or services dedicated to enabling the execution of activities under a).

Weapons

a) Activities in scope

- Manufacture of weapons or tailor-made components thereof.
- Sale of weapons.

b) Eligibility criteria for companies performing activities under a)

i. Governance

- The company shall have a strategy to reduce the adverse impact of its activities and to increase its contributing activities, if applicable.

ii. Transition of operations

- The company shall have no activity of manufacturing or of manufacturing tailor-made components, using, repairing, putting up for sale, selling, distributing, importing or exporting, storing or transporting controversial or indiscriminate weapons such as: anti-personnel mines, submunitions, inert ammunition and armour containing depleted uranium or any other industrial uranium, weapons containing white phosphorus, biological, chemical or nuclear weapons.
- The company shall derive less than 5% of its revenues from activities under a).

c) Eligibility criteria for companies enabling activities under a)

- The company shall derive less than 25% of its revenues from bespoke products, equipment or services dedicated to enabling the execution of activities under a).

Coal

a) Activities in scope

- Thermal coal prospecting or exploration.
- Extraction/mining of thermal coal.
- Processing of thermal coal.
- Transportation of thermal coal.

b) Eligibility criteria for companies performing activities under a)

i. Governance

- The company shall have a strategy to reduce the adverse impact of its activities and to increase its contributing activities, if applicable.

ii. Non-expansion of adverse impact

- The company shall currently not be involved in coal exploration, and not be involved in the exploitation or development of new coal mines.
- The company's absolute coal production or capacity for activities under a) shall not be increasing.

iii. Transition of operations

- The company shall meet at least one of the following criteria:
  - have a SBTi8 target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment
  - have an annual thermal coal production less than 10Mt and derive less than 5% of its revenues from activities under a). For transportation, the revenue threshold is 10%
  - have less than 10% of CapEx dedicated to activities under a) and not with the objective of increasing revenue
  - have more than 50% of CapEx dedicated to contributing activities

c) Eligibility criteria for companies enabling activities under a)

- The company shall derive less than 25% of its revenues from bespoke products, equipment or services dedicated to enabling the execution of activities under a).

d) Comply or explain

- The TS labelled funds will be able to explain when companies in their portfolio are on the GCEL[7] list for expansion of coal mining activities.

Unconventional oil & gas

a) Activities in scope

- Unconventional oil and gas prospecting or exploration.
- Extraction of unconventional oil and gas.

This includes tar sands oil, coalbed methane, extra heavy oil and Arctic oil & gas, as well as oil & gas from unconventional production methods such as fracking or ultra deep drilling.

b) Eligibility criteria for companies performing activities under a)

i. Governance

- The company shall have a strategy to reduce the adverse impact of its activities and to increase its contributing activities, if applicable.

ii. Non-expansion of adverse impact

- The company shall currently not be involved in exploration, and not be involved in exploitation or development of new unconventional oil or gas fields.
- The company's absolute production of unconventional oil and gas or capacity for activities under a) shall not be increasing.

7 Global Coal Exit List: https://www.coalexit.org/

iii. Transition of operations

- The company shall meet at least one of the following criteria:
  - have a SBTi target set at well-below 2°C or 1.5°C or have a SBTi 'Business Ambition for 1.5°C' commitment
  - derive less than 5% of its revenues from activities under a)
  - unconventional oil and gas production is less than 5% of total oil and gas production
  - have more than 50% of CapEx dedicated to contributing activities.

c) Eligibility criteria for companies enabling activities under a)

- The company shall derive less than 25% of its revenues from bespoke products, equipment or services dedicated to enabling the execution of activities under a).

d) Comply or explain

- The TS labelled funds will be able to explain when companies in their portfolio are on the GOGEL[8] list for having any short-term unconventional expansion.

Conventional oil & gas

a) Activities in scope

- Oil or gas prospecting or exploration.
- Extraction of oil or gas.
- Processing or refining of oil or gas (except oil to chemicals).
- Transportation of oil (not distribution).

Indicative sector/industry and activity classifications (See Annex 1).

b) Eligibility criteria for companies performing activities under a)

i. Governance

- The company shall have a strategy to reduce the adverse impact of its activities and to increase its contributing activities, if applicable.

ii. Non-expansion of adverse impact

- The company shall currently not be involved in exploration, and not be involved in exploitation or development of new oil or gas fields.

iii. Transition of operations

- The company shall meet at least one of the following criteria:
  - have a SBTi target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment
  - have an emissions intensity aligned with 1.5°C target (e.g., TPI: 55,75 gCO2e/MJ in 2023, or other science-based alignment assessment)
  - derive less than 5% of its revenues from activities under a)
  - have less than 15% of CapEx dedicated to activities under a) and not with the objective of increasing revenue
  - have more than 15% of CapEx dedicated to contributing activities.

c) Eligibility criteria for companies enabling activities under a)

- The company shall derive less than 25% of its revenues from bespoke products, equipment or services dedicated to enabling the execution of activities under a).

d) Comply or explain

- The TS labelled funds will be able to explain when companies in their portfolio are on the GOGEL[9] list for having any IEA NZE Expansion Overshoot or having any Exploration CapEx (3-year average).

Power generation

a) Activities in scope

- Generation of power or heat from non-renewable energy sources.

b) Eligibility criteria for companies performing activities under a)

i. Governance

- The company shall have a strategy to reduce the adverse impact of its activities and to increase its contributing activities, if applicable.

ii. Non-expansion of adverse impact

- The company shall currently not be involved in building new coal-fired power stations.
- The company's absolute production of or capacity for coal-based power shall not be structurally increasing and be less than 5 GW.

The non-expansion criteria can temporary be ignored in case of national legal obligations in the context of energy provision security.

iii. Transition of operations

- The company shall meet at least one of the following criteria:
  - have a SBTi target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment
  - have a carbon intensity aligned with 1.5°C target (e.g., TPI: 0,348 tCO2e/MWh in 2023, or other science-based alignment assessment)
  - derive less than 5% of its revenues from activities under a)
  - derive more than 50% of its revenues from contributing activities
  - have more than 50% of CapEx dedicated to contributing activities.

c) Comply or explain

- The TS labelled funds will be able to explain when companies in their portfolio are on the GCEL[10] list for expansion of coal power generation activities.

d) Phase-out margin

Some companies performing activities under a) currently do not yet meet the transition-related eligibility criteria in b) iii. but are nevertheless within the best of their peer group in

8 Global Oil and Gas Exit List: : https://gogel.org/
9 Global Oil and Gas Exit List: : https://gogel.org/
10 Global Coal Exit List: https://www.coalexit.org/

transitioning their business model. These companies can be selected, under the following conditions:

- The total portfolio exposure to non-compliant companies is < 5%. This margin will decrease by 1pp (percentage point) per year as of 1/1/2023.
- Additionally, companies in this margin shall be subject to a best-in-class selection that selects from the 25% highest ESG-rated companies ('leaders'), with special attention to sustainable energy transition.
- Companies in this margin shall still meet the governance and non-expansion eligibility criteria in b) i & ii.
- Portfolios using the phase-out margin, shall reduce it to 0% by 30/6/2025.

Asset class criteria

These criteria refer to the below mentioned asset classes.

Sovereign bonds

a) Classification of sovereign issuers

- Sovereign exposures are exposures to central governments, central banks and supranational issuers.
- States that issue sovereign instruments are classified based on the income level of their economy, based on the classifications of the World Bank: low-income, lower middle-income, upper middle-income and high-income economies.
- To be eligible for a TS labelled portfolio, all States shall comply with the base criteria under b). States classified as high-income economies shall also comply with the additional criteria under c).

b) Base criteria for all economies

- Non-use-of-proceeds sovereign-issued instruments cannot be directly linked to the financing of sustainable activities. The proceeds are allocated by governments in a discretionary way.
- Governance indicators are an appropriate measure for the fair and responsible allocation of proceeds by governments.
- Governance consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them.

- The strength of the governance of a State is measured using the 6 Worldwide Governance Indicators (WGI), established by the World Bank:
  1. Voice and Accountability
  2. Political Stability and Absence of Violence/Terrorism
  3. Government Effectiveness
  4. Regulatory Quality
  5. Rule of Law
  6. Control of Corruption

A State is eligible if both of the following conditions are met:

- The average of its scores on all 6 WGIs is at least -0.59
- It does not score less than -1.00 on a single WGI

c) Additional criteria for high-income economies

In addition to the base criteria under b), high-income economy States shall also meet all the following conditions:

- The State has ratified or has implemented in equivalent national legislation:
  - the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work
  - at least half of the 18 core International Human Rights Treaties.
- The State is party to:
  - the Paris Agreement
  - the UN Convention on Biological Diversity
  - the Nuclear Non-Proliferation Treaty.
- The State does not have a particularly high military budgets (>4% GDP).
- The State is not considered a 'Jurisdiction with strategic AML/CFT deficiencies' by the FATF.
- The State scores at least 40/100 on the Transparency International Corruption Perception Index.
- The State is not qualified as 'Not free' by the Freedom House 'Freedom in the World'-survey.
- The State does not have the death penalty legal and in use.

States that meet these criteria (and also those under b)) are eligible for the exemption under 1.1 b).

d) Exception

- Portfolios can invest for reasons of diversification or (currency risk[11]) hedging, in public debt instruments issued by core reserve (non-EURO) currency issuers that do not comply with the above requirements, to a maximum of 30% (in total) of the portfolio. This threshold may temporary be exceeded in the event of extraordinary market circumstances to protect investors' financial interests.
- Use-of-proceeds instruments issued by non-compliant States can still be eligible (See 4.3).
- State-owned companies or private companies active in ineligible States are not automatically ineligible themselves. They should be evaluated using the criteria applicable to (private) companies. However, their business activities and government relations will be relevant to take into account.
- Use-of-Proceeds instruments/Green and Social Bonds
- Use-of-proceeds instruments shall meet the following criteria:
  a) Use-of-proceeds instruments shall comply with an appropriate framework (e.g. ICMA/CBI/EU GBS/LMA)[12] and be subject to independent external review. For some specific issuers, supranational institutions and agencies, this might not be possible. In that case, elaborate on equivalence (see c)).

11 The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.
12 These are all internationally recognized frameworks: The green bond principle from ICMA, Green bond principle from the Climate Bond Initiative, the European Green bond standard and the Green Loan Principles from the Loan Market Association.

b) Issuers and beneficiaries of use-of-proceeds instruments shall be subject to the ESG due diligence process of the product man-ager. The environmental, social and governance aspects of the financed programs/projects shall be taken into account when in-vesting in use-of-proceeds instruments.
c) The evaluation of use-of-proceeds instruments issued by financial institutions, governments and supra-nationals is left to the discretion of the product manager.

- Use-of-proceeds instruments issued by companies that fail the criteria for coal, unconventional oil and gas, conventional oil and gas and power generation, can be eligible as long as the governance criterium b) i) is met and particular attention is given in the ESG due diligence process to these companies' overall transition efforts.
- Use-of-proceeds instruments issued by sovereigns that fail the sovereign criteria can be eligible.

While all types of bonds issued by issuers that are compliant with the Quality Standard of the TS label are in any case eligible, if the product manager promotes investments in use-of-proceeds bonds as a strategy, all use-of-proceeds instruments in the portfolio shall comply with the above criteria.

OTHER KEY ESG ISSUES

An overview

Biodiversity

Biological diversity is the term used to describe the variety of life on Earth, from plants and animals to microorganisms and fungi. This includes genetic differences within species, such as breeds of cattle, and the variety of the planet's ecosystems. Biodiversity matters because it supports everything in nature that humans need to survive, including food, clean water, fuel, medicine and shelter.[13] Our ability to provide these essentials for a growing global population depends on sustainable agriculture, pollinators, a healthy ocean and the genetic diversity of plants and animals.[14] More than half of the world's total economic value generation is "moderately or highly dependent" on nature, according to a widely cited report from the World Economic Forum. Industries that rely directly on nature for their output, such as agriculture and construction, face clear risks from biodiversity loss. For example, 60% of coffee varieties are in danger of extinction due to climate change, disease and deforestation, threatening the farmers who produce the beans and a lucrative global market, the report shows. Even industries whose output is less directly dependent on nature, such as chemicals, tourism and consumer goods, can face significant "hidden dependencies" through their supply chains. Land degradation, or the decline of economic and biological productivity of land due to human treatment, costs the world $6.3 trillion annually[15]. For companies that rely on natural resources, improper land management poses transition, physical, litigation, regulatory and systemic risks[16]. Biodiversity also plays a critical role in the global drive to address climate change. Healthy ecosystems are essential to this effort because they absorb and store carbon dioxide (CO_2) and other gases that are driving the increase in global temperatures. The ocean, for example, absorbs 25% of all CO_2 emissions, making it the planet's largest carbon sink. Ocean habitats such as seagrasses and mangroves can sequester CO_2 from the atmosphere at rates as much as four times higher than forests on land.[17] Yet the capacity of nature to sequester carbon is being diminished by processes such as deforestation, land degradation, pollution and climate change.

The Earth's ecosystems are thus inextricably linked to climate goals such as decarbonization and efforts to address social inequality, given the role of natural capital in feeding, housing and clothing the global population.

Several possible frameworks to help us think through the issues are in the works. Metrics and tools are being developed by academics and practitioners alike. In the absence of a unifying target such as carbon emissions is for climate, due to underlying complexities, biodiversity has been missing a "net-zero" equivalent around which to coalesce. But there is mobilization around the topic in worldwide and national dialogues, as well as in the private sector, facilitated by COP15[18] which took place in Montreal in December 2022. The Conference resulted in the adoption of the Global Biodiversity Framework (GBF), which has been compared to the Paris Agreement for climate in its significance. The GBF includes its own equivalent of the '1.5-degree target' which is "30 by 30"- by 2030, 30% of all land and water on the earth need to be protected, compared to the present 17% and 10% respectively.[19]

Presently, only a fragment of annual investments needed to reverse nature loss is being met, and the funding comes predominantly from governments.[20] They are expected to come out with commitments, national agendas, and increased funding; regulators are working to clarify requirements and parameters for disclosure; consultants and data providers are developing tools and devising screens. Increasingly, the corporate world and the financial industry will play an active role. The investor community must help to direct capital to where it's needed most, encouraging corporates to formulate and disclose their biodiversity footprint to facilitate the much-needed capital (re)allocation.

It may seem too big of a challenge for investors to get directly involved. Corporate disclosure in the public equity space is still sparse. For example, our research shows that only about a fifth of the companies in the MSCI ACW Index mentioned biodiversity-related topics like deforestation, degradation of ecosystem, animal welfare, etc. in their 2021 annual reports. But the trend is positive, and companies are beginning to frame positive actions around the topic: the percentage of the companies that reported a commitment, pledge, target, policy, or an action in relation biodiversity – what can be called "biodiversity intention" – tripled to 9% since 2017.

Expectations around corporate management's awareness around biodiversity issues are rising and requirements for transparency are rapidly evolving. Companies are coming

13 What is biodiversity, WWF website. As of March 7, 2023.
14 Biodiversity: Assessing the Financial Links to Natural Capital, Goldman Sachs Global Investment Research. As of September 21, 2022. Goldman Sachs Asset Management leverages the resources of Goldman Sachs & Co. LLC subject to legal, internal and regulatory restrictions. Goldman Sachs Asset Management leverages the resources of Goldman Sachs & Co. LLC subject to legal, internal and regulatory restrictions.
15 University of Cambridge Institute for Sustainability Leadership, 2020.
16 Principles for Responsible Investing, Investor Action on Biodiversity, 2020.
17 The ocean – the world's greatest ally against climate change, United Nations website. As of March 7, 2023.
18 The 15th Conference of the Parties to the UN Convention on Biological Diversity.
19 "COP15: Nations Adopt Four Goals, 23 Targets for 2030 in Landmark UN Biodiversity Agreement," Convention on Biological Diversity, December 2022.
20 "GS Sustain: Biodiversity – Assessing the Financial Links to Natural Capital," Goldman Sachs Research, September 2022, Goldman Sachs Asset Management leverages the resources of Goldman Sachs & Co. LLC subject to legal, internal and regulatory restrictions.

under pressure to demonstrate how they take biodiversity issues into account and to disclose material impacts. There is a regulatory push, with the EU Taxonomy listing "protection and restoration of biodiversity and ecosystems" as one of the six environmental objectives and expecting any qualifying economic activity to "do no significant harm" to the other objectives.[21]

Among the most notable achievements of COP15 is the adoption of Target 15 which relates to advancing corporate disclosure and calls to encouraging and enabling business (and especially large international and financial organizations) to monitor, assess, and transparently disclose their risks, dependencies and impacts on biodiversity. This includes the companies' own operations as well as supply and value chains and portfolios.

An industry coalition, the Taskforce on Nature-related Financial Disclosures (TNFD), is creating nature-based corporate reporting systems. The Taskforce has developed a set of disclosure recommendations and guidance that encourage and enable business and finance to assess, report and act on their nature-related dependencies, impacts, risks and opportunities.

The recommendations include a set of general requirements for nature-related disclosures and a set of recommended disclosures structured around the four pillars of governance, strategy, risk and impact management, and metrics and targets.[22] The International Sustainability Standards Board (ISSB) announced it will add biodiversity and just transition disclosures to climate reporting standard[23] (the ISSB standards are often used as input for mandatory reporting requirements).

In 2023, the Global Stewardship Team launched an engagement initiative focused on deforestation. The team seeks to engage with companies in sectors identified as being exposed to potentially material deforestation risk, in our largest holdings, and where those companies do not have publicly disclosed deforestation reduction plans to understand their approach to addressing deforestation in their supply chains.

Water use

Our freshwater resources are of vital importance, both now and in the future, and are inextricably linked to societal and economic developments. Without adequate clean water supply, production processes come to a halt, food production is disrupted, and eventually entire societies and their economy will be negatively affected. Water resources are at risk from a wide range of developments, including global warming, population growth, water competition from growing cities, production processes, power generation and food production needs.

Water is an important resource in many production processes, and water shortages or restrictions can lead to operational, strategic and market risks that have repercussions for the value of our investments. Water stress affects several sectors in which we invest, such as the energy, materials, industries and food and beverage industries. In the food and beverage sector, for example, water is an important resource in production processes, and water stress will influence production capacity. In the energy sector, hydro and thermal energy plants may face shutdowns in water-stressed areas, as the production process requires significant amounts of water that may not be available. Water use by companies in areas afflicted by water scarcity or water stress can also threaten the company's license to operate or lead to societal disruption, which could have material negative effects. These risks require strategic and technological answers and changes in order to prevent adverse impacts.

It is increasingly important to understand how resource-intensive companies are. This is why we make use of external ESG data on various climate-related indicators, including water intensity. This data can enhance our assessment of water risks and performance[24] at the company level.

Waste

Discussing waste means in this context the Global Stewardship Team is focusing on plastics. The increasing amount of plastics in oceans and other natural environments is detrimental for biodiversity.

The environmental impacts of plastic cannot be ignored. Concerns are growing about its impact on the world's ecosystems. Marine wildlife is particularly vulnerable and harmed through entanglement and ingestion of plastic. There is a risk of microscopic particles of plastic transferring toxins into the food chain. Fields, streets and beaches are increasingly littered with plastic bottles, bags and other trash. Plastic manufacturing processes use non-renewable resources, such as oil, and release greenhouse gases into the atmosphere contributing to climate change[25].

In addition, the use of chemical additives in plastic may be hazardous to human health[26]. Waste disposal - whether by incineration or landfill - can impact biodiversity resulting in loss of habitat through direct land take, leachates affecting groundwater and release of greenhouse and other gases to the atmosphere[27]. 8 million tonnes of plastic waste leaks into

21 https://eu-taxonomy.info/info/eu-taxonomy-overview, accessed on March 27, 2023.
22 Taskforce on Nature-related Financial Disclosures (TNFD) Recommendations – TNFD.
23 ESG Today, December 15, 2022.
24 Complete information on the risks of investing in the Fund are set out in the Fund's prospectus.
25 UNEP (2014) Valuing Plastics: The Business Case for Measuring, Managing and Disclosing Plastic Use in the Consumer Goods Industry.
26 https://wedocs.unep.org/bitstream/handle/20.500.11822/9238/-Valuing%20plastic%3a%20the%20business%20case%20for%20measuring%2c%20managing%20and%20disclosing%20plastic%20use%20in%20the%20consumer%20goods%20industry-2014Valuing%20plasticsF.pdf?sequence=8&isAllowed=y
27 http://www.businessandbiodiversity.org/action_other.html

the ocean each year. By 2050 there will be more plastic than fish in the ocean[28].

The Principle for Responsible Investments (PRI) published a research paper[29] that highlighted a number of key sectors as having the most significant impacts on biodiversity loss and recommended that asset manager engagement should prioritize high-risk sectors – those that have a high dependency and / or high impact on biodiversity.

We have decided to focus on plastics waste and pollution in Fast Moving Consumer Goods (FMCG) companies, a sector which includes companies having a significant impact on total global plastics and packaging waste and pollution. Plastic packaging accounts for nearly half of all plastic waste globally, and much of it is thrown away within just a few minutes of its first use[30].

The single-use packaging that we throw away each year represents $100 billion of economic value.[31] However, there are significant upside benefits for companies that are able to address plastics waste related risks, for example Harvard Business Review[32] identified five clear benefits that reducing plastic waste can deliver to businesses: Drive Innovation, Reduce Operational Costs, Reduce Capital Costs, Mitigate Risk and Win New Customers and Increase Loyalty.

This targeted approach allows us to focus our engagement efforts efficiently and with the highest potential for impact by targeting some of the largest contributors to plastics and packaging waste and pollution.[33]

Advocating for clear disclosures

We believe that disclosures around the materials used in their packaging, including recyclable and raw materials can be material for FMCG companies. Increasing this disclosure allows investors to clearly track the current plastic usage of a company and their reduction in plastic usage over time. Further, we believe assessing plastic usage and transition performance is important for investors and investee companies to manage biodiversity-related risks and opportunities.

As such, we will seek to engage with companies to disclose their plastics packaging with quantitative metrics.

Defining the material disclosures

To define the relevant metrics to ask companies to disclose, we have referred to the Sustainability Accounting Standards Board (SASB) standards for the companies SASB defined industry[34][1Our expectation is that companies report these metrics annually.

Engaging with companies on clear disclosures

We seek to engage with companies for whom plastic packaging represents a potentially material investment risk to ask them to clearly disclose their plastic packaging usage, encouraging them to disclose, in line with SASB standards for FMCG companies:

- The total weight of packaging in metric tons, by type.
- Percentage of packaging made from recycled or renewable materials.
- Percentage of packaging that is recyclable, reusable and/or compostable.

Monitoring progress

When tracking the progress of target companies, we will categorize companies' disclosure on a three-tier basis, as below:

- **Full disclosure**: Company is disclosing all the SASB defined metrics on plastic packaging for their sector.
- **Partial Disclosure**: Company is disclosing some but not all SASB metrics on plastic packaging for their sector.
- **Non-Disclosure**: Company does not currently disclose any SASB metrics regarding their plastic packaging.

This approach echoes many of the areas of focus of the The Plastic Solutions Investor Alliance[35], the Ellen McArthur Foundation and other corporate and investor initiatives in this area.

Diversity and Inclusion

What it is

We define diversity as encompassing all the ways in which we differ. It includes our visible differences such as age, race, ethnicity, gender, and visible disabilities. Invisible diversity is what doesn't meet the eye. It is the elements beneath the surface that influence who we are, such as education, opinions, sexual orientation, nation of origin, religion, neurodiversity, languages spoken, and belief systems. Inclusion to us means respecting and valuing differences and encouraging a workplace and culture where we all thrive. This means people are supported, respected, engaged, have a voice, and are facilitated to develop skills and talents in line with their personal and professional ambitions.

What we do

External

We have a long-standing commitment to sustainability. Our two priorities in this area are helping clients across industries decarbonize their businesses to support their transition to a low-carbon economy (Climate Transition) and to advance solutions that expand access, increase affordability, and drive outcomes to support sustainable economic growth (Inclusive Growth). Our strategy is to advance these two priorities

28 https://www.weforum.org/projects/global-plastic-action-partnership.
29 https://www.unpri.org/biodiversity/investor-action-on-biodiversity-discussion-paper/6335.article.
30 UNEP (2018). SINGLE-USE PLASTICS: A Roadmap for Sustainability (Rev. ed., pp. vi; 6).
31 https://hbr.org/2020/04/why-plastic-waste-is-a-c-suite-issue
32 https://hbr.org/2020/04/why-plastic-waste-is-a-c-suite-issue
33 For more information on our approach to engaging on controversies relating the United Nations Global Compact, please see our Stewardship Report.
34 [1] SASB Standards – Household and Personal Products – version 2323-06
35 https://static1.squarespace.com/static/59a706d4f5e2319b70240ef9/t/5b99f3ec758d4663942c3686/1536816112564/Investor+Declaration+on+Plastic+Pollution+20180613.pdf

through our work with our clients, and with strategic partners whose strengths and areas of focus complement our own, as well as through our supply chain[36].

In addition to Climate Transition, our approach to sustainability also centers on Inclusive Growth where we seek to drive solutions that expand access, increase affordability, and drive outcomes to advance sustainable economic growth. We have sponsored initiatives, such as One Million Black Women, Launch With GS, the Urban Investment Group, 10,000 Women and 10,000 Small Businesses. An overarching theme of our sustainability strategy is promoting diversity and inclusion as an imperative for us, as well as for our clients and their boards. These efforts are further strengthened by strategic partnerships that we have established in areas where we have identified gaps or believe we are able to drive even greater impact through collaboration.

We believe diverse teams have the potential to outperform and we expect our portfolio companies to demonstrate diversity at the board level. Based on our belief that diversity is a business imperative, we have evolved the expectations of board diversity in our proxy voting policy over several years to promote board gender and ethnic diversity at portfolio companies as we see our vote as a way to share our views. The Global Stewardship Team also promotes best practices and disclosure with respect to diversity and inclusion in the workforce through engagement with portfolio companies. For more details on the evolution of our Proxy Voting Policy and our engagement approach on diversity and inclusion, please refer to the Goldman Sachs Asset Management Stewardship report.[37]

Internal

Our ability to achieve our sustainability objectives[38] is critically dependent on the strengths and talents of our people, and we recognize that our people are able to maximize their impact by collaborating in a diverse and inclusive work environment that encourages a wide range of perspectives. We believe that diversity at all levels of our organization, from entry-level analysts to senior management, as well as the Board of Directors of Group Inc. (Board) is essential to our sustainability. Our management team works closely with our Global Inclusion and Diversity Committee to continue to increase diversity of our global workforce at all levels. In addition, we have Inclusion and Diversity Committees across regions, which promote an environment that values different perspectives, challenges conventional thinking and maximizes the potential of all our people. We believe that increased diversity, including diversity of experience, gender identity, race, ethnicity, sexual orientation, disability and veteran status, in addition to being a social imperative, is vital to our commercial success through the creativity that it fosters. For this reason, we have established a comprehensive action plan with aspirational diversity hiring and representation goals[39] which are set forth below and are focused on cultivating an inclusive environment for all our colleagues. An overview of all our initiatives can be found in our annual report.

Death penalty

Companies and sovereign issuers the TS labelled funds invest in, should adhere to international norms and conventions with respect to human rights. For this scope of funds we don't invest in sovereign bonds of countries which have the death penalty legal and in use.

Forward contracts on agricultural commodities
Investments in agricultural forward or futures contracts might have an effect on commodity prices. In 2011, a report from SOMO[40], a Dutch non-profit research agency, concluded that excessive investments and capital inflows into the market can push up agricultural commodity prices, exacerbate volatility and increase the cost of food. Given the importance of this subject, we follow the international debate.

Taxation

The subject of taxation has got governments and investors moving in recent years after a large number of tax scandals were revealed. Meanwhile, a number of developments and initiatives are underway worldwide to tackle tax evasion.

The public debate that arose from these scandals has ensured that in the event of tax evasion, companies now not only expose themselves to a tax risk, but that reputational risk also plays a major role. Since the decision about the tax policy pursued affects the license to operate of a company and influences the position of many stakeholders, it must also be taken at appropriate level in organizations (i.e., board level) and in our opinion also be linked to the corporate responsibility policy.

It is important that companies pay their 'fair' share of tax, to be paid where the activities take place, and that companies are transparent on their tax policies and actual payments.

Gaining a clear understanding of a company's tax policies and its governance is integrated into our investment processes. It is also part of the required Good Governance practices in the EU regulation on Sustainable Finance (SFDR).

36 Firmwide sustainability goals are not binding characteristics of specific products. There is no guarantee that any particular ESG objective will be pursued or met with respect to any particular product.
37 Stewardship (gsam.com)
38 There is no guarantee that objectives will be met.
39 Firmwide sustainability goals are not binding characteristics of specific products. There is no guarantee that any particular ESG objective will be pursued or met with respect to any particular product.
40 Stichting Onderzoek Multinationale Ondernemingen.

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