Sustainable Investment Definition

At Northern Trust Asset Management ("NTAM"), we believe organizations with a demonstrated commitment to corporate social responsibility and sustainable investing create greater value for shareholders and key stakeholders. Our definition of sustainable investing acknowledges that the long-term financial success of our clients and shareholders is dependent on a healthy global environment; a stable society; and well-functioning, well-governed companies. As such, we believe that material environmental, social and governance issues are business issues; when managed well, these factors can position a company for success. When managed poorly, they can lead to negative externalities that can result in reputational and financial risk. This belief is key to our Sustainable Investment Definition.

This document outlines our framework that underpins our definition of Sustainable Investments, in line with the requirements set out by Regulation (EU) 2019/2088 on Sustainable Finance Disclosure Regulation ("SFDR")), in particular Article 2(17) (sustainable investment).

NTAM's Sustainable Investments methodology adopts a three pillar approach based on a proprietary set of eligibility criteria on underlying investee companies[1]. The three pillars address positive contribution to a social or environmental objective, the Do No Significant Harm ("DNSH") principle, and good governance practices. Our approach considers companies' existing economic activity that contribute positively as well as forward looking commitments at the corporate sustainability level.

The definition allows NTAM to apply a consistent measure of Sustainable Investment across all Article 8 and Article 9 funds. This document provides transparency and context for our investors by setting Sustainable Investment allocation targets in fund precontractual disclosures, as well as periodic reporting, on the attainment of these targets.

We have adopted a quantitative measure of Sustainable Investment (SI) on our listed equities and corporate fixed income universe. As sustainability data continues to improve, and reflective of the evolving nature of this data which feeds into our SI calculation, we will continue to evolve our methodological approach to include other asset classes such as sovereign credit, municipal credit, asset backed credit and derivatives. Additionally, we will continue to review our approach to reflect new guidance or requirements from the European Supervisory Authorities ("ESAs").

Investment Stewardship

Engagement is a key part of our approach to sustainable investing, and our experience shows that engagement and proxy voting have the biggest impact when they are used in combination. Our proactive dialogue with companies, reinforced by our voting power, encourages companies to improve practices that strengthen sustainability.

Our stewardship activities helps to identify and reduce principal adverse impacts, through active engagement with investee companies that could cause material harm to sustainability factors.

As a leading index investor representing permanent capital in more than 10,000 companies globally, we see voting at shareholder meetings as one of the most effective ways Northern Trust can further stewardship goals on behalf of our clients. We have established proxy voting policies, procedures and guidelines to provide a thoughtful approach to voting on ESG issues.

[1] Defined under Regulation (EU) 2020/852 as: 'environmentally sustainable investment' means an investment in one or several economic activities that qualify as environmentally sustainable under this Regulation.

We have delegated responsibility to review proxy proposals and to make voting recommendations to the Proxy Committee. For proxy proposals that are to be voted on a case-by-case basis, we provide supplementary instructions to the third party. We have instructed the proxy voting service not to exercise discretion in making vote recommendations. Instead, they should seek guidance whenever they encounter situations either not captured by the guidelines or where their application is unclear. The Proxy Committee reviews the proxy voting service annually, assessing matters such as: capacity and competency, staffing and personnel, robust policies and procedures, and the ability to identify and address any real or potential conflicts of interests.

The Three Pillar Approach

1. Positive contribution to environmental objectives

Sustainable investing is multi-dimensional and can apply differently to different asset classes and geographies. We distinguish between certain markets to ensure that we capture and address their unique idiosyncrasies in our overall assessment of their sustainable investments outlined in the positive contribution below.

1.1 Developed Markets (“DM”)

Eligible companies for positive contribution must meet either of the following criteria to be classified as positively contributing to environmental objectives. The investment will be captured as the full weighted holding, as long as it passes our Good Governance and DNSH thresholds outlined below.

1. The company derives at least 20% of its revenue from products or services targeting one or more environmentally sustainable economic activity defined as: Alternative energy (Renewables), Energy efficiency, Green building, Sustainable water, Pollution prevention, and Sustainable agriculture; **or**

2. The company has adopted emissions reduction targets approved by the Science-based Targets Initiative (“SBTi”), also known as science-based targets and as well managing the risks and opportunities related to the low carbon transition. Science-based targets show how much and how quickly a company needs to reduce greenhouse gas (“GHG”) emissions to prevent the worst effects of climate change. The SBTi, a not-for-profit, defines and promotes best practice in science-based target setting. Offering a range of target-setting resources and guidance, the SBTi independently assesses and approves companies’ targets in line with its strict criteria.

1.2 Emerging Markets (“EM”) and Small Cap Developed Markets (“Small Cap”)

Given that emerging markets have less disclosure and regulatory requirements, and may not have the resources to set SBTi targets or the policies and management systems required under the SBTi framework, we have taken a tailored approach to identify sustainable investments. As such, for EM and Small Cap companies we have the following criteria:

1. The company derives at least 10% of its revenue from products or services targeting one or more environmentally sustainable economic activity defined as: Alternative energy (Renewables), Energy efficiency, Green building, Sustainable water, Pollution prevention, and Sustainable agriculture; **or**
2. The company has adopted emissions reduction targets approved by the Science-based Targets Initiative (“SBTi”), also known as science-based targets; or

3. The company has set carbon emissions reduction targets based on the data supplied from our preferred data provider.

NTAM has developed the methodology criteria for the positive contribution test under this Sustainable Investment definition. We may review and enhance the proprietary criteria periodically to reflect further clarifications from European Supervisory Authorities and market developments. The criteria can be implemented across applicable Article 8 and Article 9 products using one or more of our preferred ESG data providers.

2. Do No Significant Harm ("DNSH")

The SFDR principle of Do No Significant Harm ("DNSH") focuses on ensuring investments benefitting a particular environmental or social objective sufficiently considering other such objectives. For example, targets and metrics used to assess investments in reducing emissions should not come at the expense of other important environmental goals such as good water, waste and biodiversity management. DNSH will help ensure that companies doing well on one environmental aspect meet a minimum baseline standard across others. The objective is to bring the ' do no significant harm' disclosures under SFDR Article 2, point (17) in line with the minimum safeguards in Article 18 of the Taxonomy Regulation.

SFDR sets expectations of DNSH reporting covering a set of Principal Adverse Impact (PAI) indicators. We use a set of diverse environmental and social indicators with thresholds in place to measure if a company with potentially positive environmental contributions has adverse impacts on other environmental and social objectives. This forms part of NTAM's definition of Sustainable Investments - under the DNSH assessment pillar. We commit to providing our clients with reporting on relevant PAI indicators, as well as ensuring that we test our investments in companies with potentially positive environmental contributions for adverse impacts.

Leveraging adverse social and environmental impact indicators in from Table 1 of Annex I of SFDR as the basis of our indicators, we have applied a proprietary definition for each. In the instance where we do not have an equivalent indicator or feel the data integrity behind the indicator is lacking, we have used a relevant proxy.

The overall objective of our DNSH disclosures is to ensure that we disclose adequate information about how our sustainable investments adhere to the precautionary principle of DNSH so that neither the environmental, nor the social objective is significantly harmed. Our review of current data sets, even from the largest data providers, has proved that data coverage and quality need to evolve and improve, as such the adverse impact indicators and thresholds will also be monitored, reviewed and subject to change over time.

The PAI test comes in addition to the requirement to align investments with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organization on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

3. Good Governance

We believe good governance is key to a well-functioning, well-governed company, enabling it to deliver long-term financial success for its shareholders and key stakeholders. Although companies typically tend to focus on short-term goals, it is material corporate governance risks that often manifest themselves over long time horizons, that pose the greatest challenges, affecting a business at many levels of the organization. Managing these risks is key and requires strategic investments aimed at strengthening the company's resiliency to emerging risks, alongside development of adaptive strategies to create an agile business that can be responsive to change.

We firmly believe that maintaining a long term, sustainable footprint is a critical factor to the success of all firms, and therefore important to all investors. Our primary objective as an asset manager is to create long-term value for our clients and beneficiaries. Good Governance is the foundation to our evaluation of Sustainable Investing and we capture this using different criteria for different markets, reflective of the different-evolved levels of governance practices across different markets. As such, NTAM EU-domiciled funds categorized as Article 8 and Article 9 meet a set of minimum standards related to corporate governance. These standards align with the four elements of "good governance" in SFDR – sound management structures, employee relations, remuneration of staff and tax compliance. These are implemented through our Custom ESG screens, a set of minimum exclusions applicable to our suite of Article 8 and Article 9 funds. As such, all constituents of such funds meet the good governance requirements of SFDR. Details of how the four elements are met is presented below.

3.1 Good Governance in Developed Markets

Our Article 8 and Article 9 DM funds meet a set of minimum exclusion criteria through the application of the NT Custom ESG screening methodology. The methodology ensures companies in breach of the following global norms are excluded:

- OECD Guidelines for Multinational Enterprises, which cover areas relevant to management structures, employee relations and tax compliance;
- UN Global Compact (UNGC), which covers principles relevant to management structures employee relations; and
- ILO Declaration on Fundamental Principles and Rights at Work, which covers areas relevant to employee relations and remuneration of staff.

The implementation of these exclusions occurs through the use of controversies as proxies for violation. For each Article 8 and 9 fund NTAM chooses a provider of controversy research and analysis. The data is used to assess the negative environmental, social and governance impact of company operations, products and services. The controversy research evaluation framework of our chosen research provider is designed to be consistent with international norms represented by the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the OECD Guidelines and the UN Global Compact.

Focusing on sound management structures as an aspect of Good Governance, our preferred data providers identify breaches of these principles through the use of controversy proxies which are assessed based on the scale and severity of the controversy. Severity may vary depending on the nature of the controversy but generally include metrics such as the percent of shareholder votes or number and position of executives or directors involved.

Scale is generally measured by the length of time an activity was ongoing, the size of the market or government affected, or the scale on which either company executives or external parties such as government officials were involved.

Sample criteria in determining violation of sound management structures:

- Large percentage of shareholder votes
- Large number shareholders or shareholders and reputable external parties
- Involvement of top executive(s) plus multiple directors

- Entire company affected or implicated
- Activity was ongoing for five or more years and involved or is being investigated by a very large global market or government, or multiple smaller ones
- Several senior executives or directors implicated
- Large number of external parties (other businesses, government officials) implicated

3.2 Good Governance in Emerging Markets

In addition to the screening applicable to developed markets, a governance screen for emerging markets is also applied to our Article 8 and 9 funds as these markets are subject to different regulations and standards.

Companies are evaluated based on three distinct governance rules; and any company failing in any one of these thresholds is ineligible for inclusion:

1. They must have a clean (non-qualified) audit opinion;
2. They are screened to exclude companies which do not conform with all four of the following corporate governance criteria:
   - individual shareholders of the relevant company must not hold 30% or more of the voting rights; and
   - at least half of the relevant company's board of directors must be independent; and
   - at least half of members of the company's audit committee must be independent; and
   - at least half of members of the company's remuneration committee must be independent.
3. Companies that are state owned entities, with either 85% or more of the voting rights are held by the largest shareholder or have a Human Rights Controversy and belong to countries that meet all of the following four criteria, are excluded from the index:
   - Countries identified by Freedom House as having weak civil liberties in its Freedom in the World report.
   - Countries identified by Freedom House as having weak political rights in its Freedom in the World report.
   - Countries identified by Freedom House as Not Free in its Freedom of the Press Index.
   - Countries on the U.S. Commission on International Religious Freedom's list of Tier 1 Countries of Particular Concern.

3.3 Good Governance in Small Cap Markets

An additional governance screen for developed small cap markets is also applied to our Article 8 and 9 funds as these markets are structurally less mature when compared to large cap developed markets.

Small Cap companies can face particular governance issues and it is our aim to invest in companies where the board of directors, company structure, and/or management incentives are aligned with shareholders. Small cap companies are also more likely to be run by their founders; when they go public they can be structured to benefit the interests of the founders over those of public shareholders. We seek to eliminate those companies where shareholders may not have their concerns heard or would see detriment with any change in top management.

Companies that are identified under the following governance key issues are excluded from our small cap markets universe:

1. Companies where the auditor expressed a qualified opinion or questioned the company's ability to remain a going concern as per the most recently reported period.
2. Companies where the ownership structure or governance arrangements indicate special concerns for minority public shareholders.

Companies can be flagged by a number of factors or combination of factors, including where any of the following Key Metrics are triggered:

- No Independent Directors;
- Leadership Concerns;
- Undersized Board;
- Cross Shareholdings;
- Poison Pill.[1]

Or any of the following apply:

- The issuer has issued 'Golden Shares'[2];
- The issuer is controlled via a stock pyramid;
- The issuer incorporated as a Partnership Limited by Shares;
- The largest shareholder holds more than 75% of the total voting rights.

[1] Poison Pill is a shareholder rights plan to act against a potentially hostile, or unsolicited, takeover attempt. It aims to dissuade any outside takeover attempt by either making the company less desirable or by typically diluting an acquirer's ownership of the target. Source: Corporate Finance Institute, 2022.

[2] A Golder Share is a type of share that gives its shareholder veto power over changes to the company's charter. Source: Corporate Finance Institute, 2022.

Directing Capital towards Sustainable Activities for Greater Value Creation

As a global investment manager and a socially responsible corporate citizen, we not only have an opportunity but a clear responsibility to contribute to a healthy environment, equitable social structures and well governed companies. This stakeholder centric mindset considers our clients, employees and the communities we serve in the decisions we make and directly contributes to our financial success while creating value for all our global stakeholders. We believe material, environmental, social and governance factors are pre-financial indicators that can affect a company's future financial viability and clients' long-term risk-adjusted investment returns. When managed well, they can position a company for success and when mismanaged they can result in significant risks. Consistent with our view that investors should be compensated for the risks they take, we believe evaluating companies' performance using ESG criteria enhances our forward-looking view of risks and opportunities.

Having managed responsible investment portfolios for over 30 years, today we offer investment capabilities and expertise with sustainable objectives in Equity, Fixed Income and Real Assets. We direct capital towards value creation through innovative products and services and purposeful active stewardship.

While sustainability factors may be broad in nature, our view focuses on certain key issues and approaches outlined in this Sustainable Investment framework; that evaluates how our investee companies are being held to good governance practices, are measured by their positive contribution to a social or environmental objective, and are helping to reduce adverse impacts from their activities. All a critical step in affirming that the capital entrusted to us is working on behalf of our clients and stakeholders to create value and mitigate risks, while working towards financial, environmental and social sustainability.

4.Definitions and Notes

4.1 Data providers

NTAM has agreements in place for the use of ESG data from a number of preferred providers, including MSCI ESG Research, Morningstar Sustainalytics and ISS ESG. We may use one or more of these providers' ESG datasets for portfolio construction, reporting, research and analysis.

NTAM has established a vendor management programme which integrates minimum standards on vendor selection, due diligence and ongoing monitoring. A centralized Market Data team manages vendor relationships in collaboration with relevant business units, including Sustainable Investing and Stewardship and Procurement. In addition, as it related to datasets for use in regulatory implementation and reporting, Compliance and Risk management teams may become involved in any of the stages of vendor management.

4.2 ESG data quality and availability

NTAM regularly reviews the information, datasets and tools available to us vis-à-vis new and emerging alternatives. We have secured access to data from the largest ESG data providers as well as access to smaller providers with niche datasets. As of the date of the latest review of ESG data available to us, we conclude that data quality and availability is not yet at the level required by SFDR Level II. Our view is reflected in the choice of proxies for SFDR PAIs.

4.3 Environmentally sustainable economic activities

NTAM uses a revenue-based proxy for environmentally sustainable economic activities for the purpose of applying the SI definition. NTAM uses data on the relative share of revenues that a company in any applicable investment universe derives from the following environmentally sustainable economic activities: Alternative energy (Renewables), Energy efficiency, Green building, Sustainable water, Pollution prevention, and Sustainable agriculture. This data is available in the datasets of our preferred ESG data providers.

4.4 Distinction between Developed Market, Emerging Market and Small Cap companies

In its market classification process MSCI uses key inputs – economic development, size and liquidity requirements and market accessibility criteria. The approach used by MSCI aims to reflect the views and practices of the international investment community by striking a balance between a country's economic development and the accessibility of its market while preserving index stability. An emerging market (EM) is a market that has some characteristics of a developed market, but does not fully meet its standards. This includes markets that may become developed markets in the future or were in the past.

4.5 Sustainable Investment

Sustainable Investment is an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labor relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

4.6 Sustainability factors

Means environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.