DMFCO

Asset Management

PAI Statement DMFCO

2024

Summary

DMFCO operates as both an asset manager (DMF Investment Management B.V (‘**Manager**’), LEI: 724500TVBA043H960027[1]) and mortgage lender (MUNT Hypotheken B.V.) and applies prudent asset management and lending practices in the origination of its portfolio of Dutch residential mortgages. DMFCO is the manager a number of mortgage investment funds (‘**Funds**’). The Funds invest in the Dutch mortgage receivables originated by MUNT Hypotheken B.V. (‘**MUNT**’). By doing so, DMFCO considers principal adverse impacts of its investment decisions on sustainability factors.

DMFCO has formulated a ‘Principal Adverse Impact Statement’ (“**PAI statement**”), that guides its operations and is factored into the investment strategy for the Funds. The statement serves as the consolidated principal adverse sustainability impact statement of DMF Investment Management B.V. and is available on DMFCO’s website.

This Principal Adverse Impact Statement relates to the period from **1st January to 31st December 2023.**

DMFCO considers the following possible negative impacts on sustainability:

- Variations exist in the energy efficiency levels of the properties underlying the mortgage receivables. DMFCO is transparent to investors about the energy efficiency of the properties and actively encourages borrowers to enhance energy efficiency through offering financing opportunities for energy-saving measures. DMFCO aims to achieve zero carbon emissions by 2050 for its mortgage portfolio;
- When investing in mortgage receivables via its label MUNT Hypotheken, mortgage receivables with a lower energy efficiency rating are not excluded, as DMFCO prioritizes the availability of suitable housing alongside climate considerations. These investments may have a negative impact on sustainability. However, DMFCO believes that by actively approaching and supporting its borrowers, a contribution can be made to the overall improvement of the sustainability profile of the Dutch housing stock. For example, by taking away as many hurdles a possible by offering easily accessible financing or free access to sustainability advisors (De Energiebespaarders);
- When granting mortgages, there is a risk that the mortgage product does not sufficiently match the profile and needs of the borrower. MUNT has a legal obligation to actively prevent the risk of over-crediting and strives for the continuing affordability of the originated mortgages. Therefore, the mortgage acceptance criteria are designed to fulfil MUNT’s duty of care towards borrowers and are aimed at preventing over-crediting. DMFCO actively engages borrowers facing payment difficulties or potential future payment challenges. In cases where a borrower struggles to meet their payment obligations, MUNT takes extra care to take the interests of the borrower into account;
- DMFCO has identified the main investor risks related to climate change with respect to its mortgage investments. These consist of the flood risk, foundation risk and transition risk. DMFCO has established a quantitative estimation of the flood risk, and the potential negative impact of the flood risk is reported on a monthly basis; and
- DMFCO's business activities involve the use of energy and raw materials. Recognizing the adverse effects associated with this, DMFCO aims to achieve zero carbon emissions by 2030. DMFCO encourages the efficient and minimal use of raw materials and energy, for example by digitalisation of as many processes as possible.

DMFCO provides periodic updates on sustainability actions undertaken during the latest reference period, along with the effects this has had on the prevention and mitigation of significant adverse effects on sustainability.

[1] DMFCO is supervised by the Dutch Authority for Financial Markets (AFM) and has a license to manage Investment Funds on the basis of art. 2:65, first paragraph sub a of the Financial Supervision Act (Wft).

The table below shows how DMFCO considered the principal adverse impacts of our investment decisions on sustainability factors, in accordance with the SFDR legislation as implemented in the DMFCO Sustainable Risk Framework. The PAI indicators, as included in Annex I of the SFDR Delegated Act, related to the investments in mortgage receivables are reported as indicators for investments in real estate assets in the table below.

Statement on principal adverse impacts of investment decisions on sustainability factors	
Financial market participant	*DMF Investment Management, LEI 724500TVBA043H960027*

Summary

DMF Investment Management B.V. (LEI:724500TVBA043H960027) considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of DMF Investment Management B.V..

This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January to 31 December 2023.

Description of principal adverse impacts of sustainability factors

Indicators applicable to investments in investee companies

Adverse sustainability indicator		Metric	Impact 2023	Impact 2022	Explanation	Actions taken
Climate and other environment-related indicators						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	N/A	N/A	N/A	N/A
		Scope 2 GHG emissions	N/A	N/A		
		Scope 3 GHG emissions (from 1 Jan 2023)	N/A	N/A		
		Total GHG emissions	N/A	N/A	N/A	N/A
	2. Carbon footprint	Carbon footprint	N/A	N/A	N/A	N/A
	3. GHG intensity of investee companies	GHG intensity	N/A	N/A	N/A	N/A
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	N/A	N/A	N/A	N/A

	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage	N/A	N/A	N/A	N/A
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	N/A	N/A	N/A	N/A
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity sensitive areas where activities of those investee companies	N/A	N/A	N/A	N/A

		negatively affect those areas				
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	N/A	N/A	N/A	N/A
	9. Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average	N/A	N/A	N/A	N/A

	Adverse sustainability indicator	Metric	Impact 2023	Impact 2022	Explanation	Actions taken
Social and employee, respect for human rights, anti-corruption and anti-bribery matters						
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development	Share of investments in investee companies that have been involved in violations of the UNGC principles or	N/A	N/A	N/A	N/A

	(OECD) Guidelines for Multinational Enterprises	OECD Guidelines for Multinational Enterprises				
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	N/A	N/A	N/A	N/A
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap	N/A	N/A	N/A	N/A

		of investee companies				
	13. Board gender diversity	Average ratio of female to male board members in investee companies	N/A	N/A	N/A	N/A
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	N/A	N/A	N/A	N/A

	Adverse sustainability indicator	**Metric**	**Impact 2023**	**Impact 2022**	**Explanation**	**Actions taken**
Indicators applicable to investments in sovereigns and supranationals						
Environmental	15. GHG intensity	GHG intensity of investee countries	N/A	N/A	N/A	N/A
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number	N/A	N/A	N/A	N/A

		divided by all investee countries), as referred to in international treaties and conventions, United Nations				

	Adverse sustainability indicator	Metric	Impact 2023	Impact 2022	Explanation	Actions taken
Indicators applicable to investments in real estate assets						
Fossil fuels	17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels	N/A	N/A	DMFCO invests exclusively in Dutch residential mortgage loans. The investment in Dutch residential mortgage receivables does not conflict with typical environmental exclusion criteria.	N/A
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	58.6%	59.8%	Exposure to energy-efficient real estate assets, i.e., the percentage of balance with an energy efficiency rating (‘energielabel’) of C or worse (on a of scale A++++ to G)	DMFCO does not exclude mortgage loans with a lower energy efficiency rating (C or worse), which may have a negative impact on sustainability, as DMFCO prioritizes

						the availability of suitable housing alongside climate considerations. However, DMFCO actively encourages both existing and new borrowers to improve sustainability by offering to finance Energy Saving Measures (ESMs), thereby improving the sustainability of the Dutch housing stock
	19. Energy consumption intensity	Energy consumption in GWh of owned real estate per square meter	N/A	N/A	Since actual energy consumption is heavily influenced by occupant usage patterns, DMFCO does not evaluate this indicator. The theoretical primary fossil energy demand is already covered by the exposure to energy-inefficient properties indicator	N/A
Waste	20. Waste production in operations	Share of real estate assets not equipped with facilities for waste sorting and not covered by a waste recovery	N/A	N/A	In the Netherlands, municipalities are responsible for sorting waste and setting policies. Neither investors nor homeowners have any control over this indicator	N/A

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		or recycling contract				
Raw materials	21. Raw materials consumption for new construction and major renovations	Share of raw building materials (excluding recovered, recycled and bio sourced) compared to the total weight of building materials used in new construction and major renovations	N/A	N/A	This indicator applies to DMFCO-financed mortgages for new construction and construction depots. However, there is currently insufficient data to substantiate this metric. As a matter of prudence, DMFCO has therefore decided not to include new construction and construction depots in DMFCO's definition of sustainable investments	Continuous monitoring of the availability of data for new housing construction and (major) renovation in order to report on this metric as soon as sufficient substantiation is available
Land artificialisation	22. Land artificialisation	Share of non-vegetated surface area (surfaces that have not been vegetated in ground, as well as on roofs, terraces and walls) compared to the total surface area of the plots of all assets	N/A	N/A	This indicator applies to the surface conditions of DMFCO-financed building plots. As this data is not yet available and the metric primarily oversees new-build homes, this metric is currently not substantiated. As a matter of prudence, DMFCO has excluded new construction in the DMFCO definition for sustainable investments	Continuous monitoring of the availability of surface data in order to report on this metric as soon as sufficient substantiation is available

	Adverse sustainability indicator	Metric	Impact 2023	Impact 2022	Explanation	Actions taken
Additional indicators (table 2, annex II)						
Environmental	23. GHG emissions	GHG emissions generated by real estate assets	323,983 196,759	N/A	Tons GHG emission (reported with and without LTV correction)	DMFCO encourages its borrowers to enhance their property's sustainability by offering mortgage financing for Energy Saving Measures ("ESM") to existing and new mortgage borrowers. DMFCO offers its borrowers the possibility opportunity to co-finance costs for of ESM up to 106% Loan-to-Value ('LtV')

NOTE*: DMFCO only invests in Dutch residential mortgage receivables. A number of key points with respect to sustainable investing do not apply to investing in Dutch residential mortgages receivables, such as investing in polluting industries, child labour or dictatorially ruled countries. Investing in Dutch residential mortgages receivables does not affect any of the usual exclusion criteria mentioned in the field to the environment.*

Policies to identify and prioritise principal adverse sustainability impacts

The Manager invests mortgage receivables originated by MUNT Hypotheken in accordance with its product- and acceptance criteria and servicing standards. These criteria and standards promote affordable housing, adequate living standards and climate change mitigation and adaptation by offering favourable financing opportunities to improve the energy efficiency of the mortgaged properties and by aiming to ensure the continued affordability of the mortgages originated.

These standards take into account and are guided by DMFCO's Corporate Social Responsibility Investment (CSRI) Policy, Engagement Policy, and Sustainable Risk Framework. These policies are leading in identifying and prioritising the adverse effects of the investments on sustainability factors. These policies were approved on January 2023, March 2024 and April 2024 respectively by the Management Team of DMFCO.

By implementing these policies, DMFCO takes into account both the social characteristics related to ensuring affordability of the originated mortgages, as well as environmental characteristics related to improving the average energy efficiency rating ('energielabel') of the portfolio of underlying Dutch mortgage receivables.

Compliance with CSRI Policy, Engagement Policy and Sustainable Risk Framework is primarily the responsibility of DMFCO. These policies are periodically reviewed and adjusted to align with new knowledge and evolving expectations. Additionally, DMFCO will provide insights into how these documents have been implemented in the previous period and the outcomes achieved.

DMFCO aims to contribute to climate change mitigation and adaptation. DMFCO uses the following characteristics to monitor whether the required environmental and social characteristics relating to climate change mitigation and adaptation, affordable housing and adequate living standards are applied to its investments in Dutch mortgage receivables:

- The environmental characteristics identifying the carbon footprint, the energy-efficiency (determined by energy efficiency ratings) and percentage of EBM construction deposits of the Dutch mortgage receivables;
- The social impact criteria identifying the Dutch mortgage receivables whereby mortgages which have been more than 1 month in payment arrears, have been fully cured without a sale of the property, and have remained so to date; and
- DMFCO has identified the risks for investors related to climate change. The main physical climate risks in relation to Dutch mortgages are flood risk and foundation risk. DMFCO has established a quantitative estimation of flood risk and its possible negative impact on DMFCO investments. A model for foundation risk is being developed.

In addition, DMFCO periodically reports on the specific actions that are taken to monitor and improve the environmental and social impact of the portfolio such as:

- New lending criteria with a positive impact on sustainability;
- Actions taken to motivate and inform borrowers on ESG related home improvements; and
- The number of borrowers that have been approached in the context of the prevention of future payment problems.

The sustainability factors identified are measured and periodically reported to DMFCO's management. DMFCO provides monthly reports on the composition of the mortgage portfolio in terms of energy efficiency ratings and associated carbon footprint. Additionally, DMFCO reports on the progress made in addressing payment difficulties experienced by borrowers.

Energy efficiency reporting

DMFCO reports the share of mortgages that meet at least one of the following criteria:

1. Mortgage receivables whereby the underlying property has an energy performance in line with an energy efficiency rating ('energielabel') of class A.

2. Mortgage receivables the underlying property has achieved an energy efficiency improvement of at least 2 rating classes and a minimum rating of D.

Mortgage receivables that do not meet these criteria are not sufficient energy efficient and run a greater risk with regard to the energy transition. This concerns potential costs of making the collateral energy efficient in the future, which must be borne by the borrower.

In the Netherlands, energy efficiency rating are determined on the basis of the final RVO registration. If no definitive RVO registration is available, the provisional RVO label will be retained. If no definitive or provisional RVO label is available, the rating is estimated based on the year of construction. Energy efficiency ratings based on year of construction may deviate from the actual energy efficiency of the collateral. This may potentially cause errors in the measurement of the energy efficiency of the mortgage portfolio.

Reporting carbon footprint

DMFCO reports the carbon emissions of the mortgage portfolio to its investors on a monthly basis. Based on the energy efficiency rating and the surface area of a home, it is possible to estimate the annual energy consumption and thus of the annual carbon emissions. This estimate is based on the average annual energy consumption in the Netherlands, which is translated back to energy consumption per square meter based on the BENG criteria.

In addition to the energy efficiency rating and housing surface area, actual carbon emissions also depend on factors that are outside the data available to DMFCO. These factors include unique property characteristics and specific borrower behaviour regarding energy consumption. As a result, actual carbon emissions may vary, potentially being higher or lower than those reported by DMFCO.

Social impact reporting

The social impact indicator identifies the mortgage receivables whereby mortgages which have been more than 1 month in payment arrears, have been fully cured, and have remained so to date. In this way, DMFCO provides insight into its impact in terms of social sustainability and impact. This information is used to review DMFCO's sustainability policy and is made available to DMFCO's investors.

Climate risks

DMFCO has identified the risks for investors related to climate change. These risks consist of flood risk (the risk for investors related to flood damage to the properties financed by DMFCO), foundation risk (the risk of for example foundation pole rot due to changing water levels) and transition risk (the risk of a decline in property value due to the transition to sustainable homes).

Flood risk is the risk for investors related to flood damage to the properties financed by DMFCO. Data from the Climate Impact Atlas, a project of Climate Adaptation Services (CAS), was used to calculate flood risk. The Climate Impact Atlas provides an insight into the impact of possible flooding, drought and heat in the Netherlands caused by climate change. The latter risks are insured for MUNT properties. Flood risk and foundation risks are not insurable.

DMFCO has conducted a quantitative assessment of flood risk, which considers the probability of collateral overflow relative to its location, as well as the consequent reduction of the collateral value resulting from flooding. In the flood model, DMFCO assumes that potential losses due to flooding materialize immediately. The calculation is based on a conservative climate scenario. The resulting flood risk is assessed as limited (< 1 bps). DMFCO reports the impact of this risk to its investors on a monthly basis. A quantitative model for foundation risk is currently under development.

Engagement policies

The Funds invest in Dutch mortgage receivables from private individuals. The engagement policy as referred to in Article 3g of Directive (EU) 2007/36/EC of 11 July 2007, is centred on investments in companies and therefore does not apply to DMFCO's investment activities.

However, this does not prevent DMFCO from drawing up its own engagement policy. The objective of this engagement policy is to activate all borrowers to improve the sustainability profile of their home, regardless of the type of financing that they would like to use to achieve this goal.

Through engagement we intend to inform and activate our borrowers. As such, engagement encompasses three core objectives:

1. The first objective is to encourage borrowers to consider Environmental, Social and Governance (ESG) risks in their financial decisions. Additionally, this improves the risk profile of the mortgage loans within the portfolios of our investors.
2. The second objective is to contribute to a better world in alignment with the UN Sustainable Development Goals 11 and 13, which focus on sustainable cities (SDG 11) and climate change (SDG 13). By raising borrowers' awareness of their potential impact on climate change by improving the sustainability profile of their homes, we intend to contribute to SDG 11 and 13.
3. The third objective centres around contributing to UN SDG 1, specifically targeting poverty eradication ("no poverty"), by educating borrowers about the significance of financial planning.

In addition, DMFCO engages with its outsourcing partners to encourage the reduction of CO_2 emissions in their operating processes.

Adherence to international standards

DMFCO is a member of the United Nations Principles for Responsible Investment (UNPRI), endorses the principles of the UN Global Compact and supports the following UN Social Development Goals (SDGs):

- <u>SDG 1: End poverty in all its forms everywhere</u>
  Goal 1.5: *By 2030, build the resilience of the poor and those in vulnerable situations, and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters*

  MUNT contributes to this SDG through their special servicing process, for example by appointing budget coaches at no charge to those households struggling with their finances. DMFCO pays attention to over-crediting and puts the customer first, especially when assessing mortgage applications and resolving payment arrears. DMFCO contributes to reducing exposure to climate related financial shocks by providing EBM financing at favourable conditions.

- <u>SDG 7: Ensure access to affordable, reliable, sustainable, and modern energy</u>
  Goal 7.3: *By 2030, double the global rate of improvement in energy efficiency*

  MUNT Hypotheken offers financing of Energy Saving Measures (ESM), within the framework provided by Dutch regulations. For example, up to an LtV of 106% can be borrowed if the amount above 100% is spent on predefined ESM. This offer applies to new as well as to existing MUNT borrowers.

- <u>SDG 11: Make cities inclusive, safe, resilient and sustainable</u>
  Goal 11.1: *By 2030, ensure access to all to adequate, safe and affordable housing, basic services, and upgrade of slums.*

  By providing mortgages, DMFCO promotes home ownership and affordable housing by providing mortgages with fair prices and conditions. For example, the risk premium is automatically reduced if borrowers pay off the mortgage. The mortgage proposition of MUNT Hypotheken creates more competition in the Dutch mortgage market and therefore fairer interest rates for Dutch consumers. As a result, all Dutch homeowners effectively pay lower housing costs and pay off their mortgage debt faster, which benefits their financial resilience and their ability to live sustainably.

- SDG 13: Take urgent action to combat climate change and its impacts
  Goal 13.3: *Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.*

  DMFCO actively encourage borrowers to make their houses more sustainable. We provide information to our existing borrowers about improving the sustainability of their houses and the possibilities of financing energy saving measures through a mortgage or the energy saving budget.

  DMFCO also maintains transparent reporting on the impact of its mortgage portfolio on the environment and social development in the Netherlands. This is achieved through monthly reporting of environmental and social impact indicators in line with relevant recognised market standards and the sustainability objectives of the Dutch government. DMFCO also provides its investors with climate stress tests to assess the climate risk of its mortgage portfolio.

To support investors committed to the Dutch Internationaal Maatschappelijk Verantwoord Beleggen (IMVB) Covenant, DMFCO incorporates the principles of the IMVB Covenant into its operations.

DMFCO has the objective to reduce carbon emissions from its mortgage portfolio in line with the climate agreement of the Dutch government and the Paris agreement, reaching zero carbon emissions by 2050 at the latest. DMFCO aims to outpace this trajectory, yet remains mindful of the significant financial costs, required technological progress and societal impact associated with this transition.

Historical comparison

As DMFCO assessed the main negative effects of its investment decisions on sustainability factors over the last two years, a historical comparison is now available. This is a comparative analysis to determine the trend of adverse effects in reporting year 2023 compared to reporting year 2022. The analysis applies to the principal adverse impacts indicators whose impact can be measured.

Adverse sustainability indicator	Impact 2023	Impact 2022	Comparison
18. Exposure to energy-inefficient real estate assets	58.6%	59.8%	Decrease in DMFCO's exposure to energy-inefficient real estate by 1.2%
23. GHG emissions	323,983 (without LTV correction) 196,759 (with LTV correction)	N/A	Not available, indicator not assessed in 2022