

Transparency with regard to sustainability

This text provides an overview of how DMF Investment Management B.V. (the **Manager**) aims to promote ecological or social characteristics through the financial products that qualify as such. The Manager is part of the DMFCO group. This text interprets Article 10 of the Sustainability Disclosure Regulation (EU) 2019/2088 of 27 November 2019 (the **SFDR**).

I. Introduction

The Manager is the manager of a number of investment funds, as referred to under the AIFMD¹. These supervised funds, as listed on the Manager's website, are qualified as products that promote environmental or social characteristics within the meaning of Article 8 SFDR. This means that the funds promote sustainability features, in the sense that a sustainability policy is applied when making investment decisions.

Specifically, this includes the following funds:

- Nederlands Hypotheken Fonds
- Nederlands Hypotheken Fonds 1908
- Dutch Mortgage Investment Fund 1863
- Dutch Mortgage Investment Fund 2020

(hereinafter: the **Investment Funds**)

The Investment Funds invest in the mortgage receivables of mortgages provided by MUNT Hypotheken B.V. (**MUNT**). Both MUNT and the Manager are part of the DMFCO group. In doing so, the Manager applies DMFCO's Corporate Social Responsibility (**CSR**) Policy and Socially Responsible Investment (**SRI**) Policy (together: the **Sustainability Policy**).

The Information Memoranda of the Investment Funds provide further information on the sustainability features promoted, as well as how sustainability risks are managed. This document provides further insight into the process as set up for this purpose within the Manager, which is applied for the Investment Funds.

II. No sustainable investment objective

The Investment Funds promote environmental or social characteristics, as referred to in Article 8 SFDR. This means that these Investment Funds promote sustainability, but do not have a sustainable objective as referred to in Article 9 of the aforementioned regulation.

III. Ecological or social characteristics of the financial product

The Investment Funds are managed according to the criteria, standards and guidelines set out in DMFCO's Sustainability Policy. The funds under management of the Manager invest in mortgage receivables provided by MUNT. The Manager observes various sustainability indicators:

- The degree of energy efficiency (determined via the energy label);
- CO2 emissions from the properties financed by the Manager and CO2 emissions from the Manager's operations;
- Actively offering home sustainability financing for existing and new borrowers;
- MUNT's activities and philosophy regarding the prevention and resolution of payment problems in relation to mortgage receivables; and
- The portion of mortgages provided to individuals belonging to groups in society that may require additional support, such as the elderly and those on low incomes.

¹ Directive 2011/61/EU of the European Parliament and of the Council on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) 1060/2009 and (EU) 1095/2010.

All mortgages provided by DMFCO through the MUNT Mortgages label promote ecological and social features. It is possible for all MUNT borrowers to obtain additional financing for energy-saving measures under advantageous conditions. In doing so, DMFCO actively encourages its borrowers to use these financing options.

For all MUNT Mortgages, the acceptance criteria also fulfil the duty of care towards borrowers and are aimed at preventing over-crediting with the aim of ensuring the affordability of the mortgages provided.

In those situations where a borrower is struggling to meet its payment obligations, the Manager will take special care of the borrower's interests. The Manager actively approaches borrowers where payment problems may arise in the future.

IV. Investment strategy

In managing the Investment Funds, the Manager applies DMFCO's Sustainability Policy. Based on this policy, the Investment Funds' investments are assessed against applicable sustainability criteria, including energy efficiency and social impact.

DMFCO has formulated a 'Principal Adverse Impact Statement' (**PAI statement**), which is applied by the Manager, and which is taken into account in the investment strategy for the Investment Funds. The PAI statement is available on the Manager's website.

Investments that conflict with the Manager's sustainability objectives are excluded based on the Sustainability Policy. In addition, the Manager takes an active approach to monitor, guide and assist ESG factors relevant to the Investment Fund's portfolio. This concerns both the social sustainability indicator (which looks at ensuring affordability of the mortgages provided) and the environmental sustainability indicator (which looks at monitoring and improving the average energy label of the portfolio of underlying mortgage receivables).

The Manager does not rule out investing in mortgage loans related to houses with a lower energy label. In this sense, these investments may have a negative impact on sustainability. However, the Manager believes that in addition to managing climate impact, the availability of suitable housing is also an important objective. The Manager actively approaches its borrowers with a low energy label (<D) to explore the possibilities of making their homes more sustainable and thus contribute to making the Dutch housing market more sustainable.

In the design of products and processes, the Manager considers the impact on the environment. The Manager opts for sustainable solutions wherever possible and aims to make homes more sustainable through measures tailored to that end. The Manager aims to conduct its business in an environmentally friendly manner, encouraging paperless operations both internally and for MUNT's borrowers. The underwriting process for mortgages is already fully digital and the provision of information to borrowers is increasingly so.

The Manager is committed to responsible mortgage lending. MUNT's underwriting criteria for mortgages fulfil its duty of care to borrowers and are aimed at preventing over-crediting and striving for ongoing affordability of the mortgages provided. MUNT actively approaches borrowers where there might be a payment problem in the future, for example in the case of interest- only mortgages. Even in those situations where a borrower is struggling to meet his or her obligations, the Manager through MUNT will give due consideration to the interests of the borrower.

A number of salient concerns as mentioned in the SFDR are not directly applicable to investing in Dutch residential mortgages, such as investing in polluting industries, child labour or dictatorially governed countries. Therefore, investing in Dutch residential mortgages does not affect any of the usual exclusion criteria.

The Manager is a member of the United Nations Principles for Responsible Investment (UNPRI) and also endorses the principles of the UN Global Compact and the guidelines from the IMVB covenant;

The following UN Social Development Goals (SDGs) are specifically supported by DMFCO's CSR CFP policy:

- SDG 1: End poverty in all its forms everywhere.
- SDG 7: Ensure access to affordable, reliable, sustainable and modern energy.
- SDG 11: Making cities inclusive, safe, resilient and sustainable.
- SDG 13: Take urgent action to combat climate change and its impacts.

The Investment Funds invest in mortgage receivables, not companies. Therefore, there is no policy to assess good *governance* of the investments in investment portfolio.

The sustainability policy is periodically updated based on new insights and expectations.

V. Proportion of investments

The Investment Funds are managed in accordance with the criteria and standards described in this document, as well as in accordance with the information on the investment policies and portfolios of the various funds as contained in the relevant information memoranda and on the Manager's website.

The Manager will invest 99% of the portfolio in mortgage receivables that promote environmental and/or social characteristics in a manner described above. A small portion of the portfolio, 1%, may be invested in additional assets that are not aligned with environmental and/or social characteristics, for example cash and money-like instruments.

The distribution of these values for MUNT's overall portfolio is reported periodically on the Manager's website. Reports of these values for individual funds is published via the Manager's Investor Portal.

VI. Monitoring ecological or social characteristics

The Manager takes into account the sustainability policy and the above-mentioned principles when making investment decisions regarding the Investment Funds. In doing so, it strives to ensure that the investments of the Investment Funds meet the sustainability characteristics described in Section III. There is a continuous review of how the portfolio is constructed with regard to these aspects.

The Manager reports monthly on the composition of the Investment Funds' mortgage portfolio in terms of energy efficiency and associated CO2 emissions as well as on making affordable mortgages available to Dutch society (social indicator). In addition, the Manager provides information on the "carbon footprint" of the portfolio.

In this way, the Manager provides insight into its sustainability and social impact. This information is used to review and, if necessary, adjust DMFCO's sustainability policy. This information is made available to the Manager's investors on via the Manager's Investor Portal.

In addition, the Manager periodically reports on the specific actions taken to improve the sustainability and social impact of the Investment Funds' portfolio, such as:

- Mortgages in portfolio with financing for energy-saving measures;
- Number of borrowers approached as part of the prevention of future payment problems.

VII. Methods and reports used

Energy efficiency reporting

The Manager reports the proportion of mortgages that meet at least one of the following criteria:

1. Mortgage receivables with an energy efficient property as collateral with a class A energy performance certificate (EPC).
2. Mortgage receivables where the underlying property has achieved an energy efficiency improvement of at least 2 EPC classes and has a minimum EPC of class D.

Energy performance certificates, or energy labels, are determined on the basis of the final RVO registration. If no final RVO registration is available, then the provisional RVO label is retained. If no final or provisional RVO label is available, then the energy label is estimated based on the year of construction.

Energy labels based on year of construction may differ from the actual energy efficiency of the collateral. This can potentially cause errors in measuring the energy efficiency of the mortgage portfolio.

Reporting CO2 footprint

The Manager reports the CO2 emissions of the mortgage portfolio to its investors on a monthly basis. Based on the energy label and the surface area of a home, an estimate can be made of the annual energy consumption and thus the annual CO2 emissions. In doing so, the Manager uses the actual, annual energy consumption and CO2 emissions of homes with different energy labels. The data source for this is the study 'Relatie tussen energielabel, werkelijk energieverbruik en CO2-uitstoot van Amsterdamse corporatie woningen' by TU Delft. This is supplemented by information on sustainability measures taken by borrowers and financed by means of a construction deposit for energy-saving measures.

Besides energy label and housing surface, actual CO2 emissions also depend on factors that are not insightful to the Manager. These include unique housing characteristics, sustainability measures not financed by means of a construction deposit for energy-saving measures and the behaviour regarding energy consumption of the occupants. This may result in an actual higher or lower CO2 than reported by the Manager.

Social impact reporting

The social impact indicator identifies mortgage receivables where mortgages that are more than 1 month in arrears have fully repaid these arrears, and have not been in arrears to date.

In this way, the Manager provides insight into its sustainability and social impact. This information is used to test DMFCO's Sustainability Policy and adjust it if necessary. This information is also made available to the Manager's investors. This allows investors to see on a monthly basis which part of the portfolio qualifies as green, social or both.

Climate change

The Manager has identified the risks to investors related to climate change. These risks consist of flood risk (the risk to investors related to flood damage to the homes financed by the Manager), foundation risk (the risk of homes being damaged due to changed groundwater levels) and transition risk (the risk of payment problems from individuals to whom a MUNT mortgage has been issued due to the transition to sustainable housing). Data from the Climate Impact Atlas, a project of Climate Adaptation Services (CAS), was used to calculate flood risk. The Climate Impact Atlas provides insight into the effects of climate change-induced potential flooding, flooding, drought and heat in the Netherlands.

The Manager has made a quantitative estimation of the flood risk based on the probability of a collateral including a certain height relative to NAP flooding and the reduction in collateral value due to flooding. In the flood model, the Manager assumes that potential losses due to flooding materialise immediately. Also, the calculation assumes a conservative climate scenario. The resulting flood risk is limited (<1 bps). The Manager reports the impact of this risk to its investors on a monthly basis.

VIII. Data sources and process

The external data we use to measure the sustainability characteristics of the Investment Funds are listed in section VII above.

The market for sustainability data sources is evolving and we expect European directives such as the Non-financial Reporting Directive (**NFRD**) and the EU Taxonomy (**Taxonomy**), to contribute positively to improving data quality and comparability for ESG data.

The Investment Funds use available data in the context of promoting sustainability issues. The part of the ESG data that relies on estimation is:

- For ~3% of DMFCO's collateral, the energy label cannot be determined based on a provisional or final RVO label. For these loans, the energy label is estimated based on the collateral construction year.
- Among other things, DMFCO reports the improvement in energy efficiency between the energy label based on year of construction and the current final RVO label. The proportion of loans where no final RVO label is known is ~35%. These loans are reported without an environmental indicator by default.
- DMFCO determines CO2 emissions based on housing surface and estimated electricity and gas consumption per square metre. Electricity and gas consumption is hereby determined based on the energy label, but in reality also depends on additional factors such as unique housing characteristics and occupant behaviour.

- The assumptions for calculating average flood losses include the following estimates:
 - The site-specific flood probabilities are based on a conservative climate and dike maintenance scenario.
 - In the case of flooding, DMFCO assumes an immediate loss, when in reality there is a possibility that the borrower will not repay the mortgage and continue to pay the monthly instalments.
 - DMFCO makes the assumption that land value remains unchanged after flooding. If the land does lose value after flooding, the collateral may be worth up to ~30% less after flooding than predicted by the model.
 - The Climate Adaptation Services (CAS) defines margins of error in the flood probabilities. As these are translated through to scenarios in DMFCO's model, this does not create additional discrepancies in DMFCO's reporting.

IX. Limitations of data

We are aware that sustainability standards and measurement tools are still evolving, and therefore have their limitations. Nevertheless, our Investment Funds can use this data to compare themselves with other Investment Funds operating in the market. In addition, it is our expectation that in the coming years the quality of the available data will increasingly improve, and we will therefore be better able to assess and take into account the impact of our investments on sustainability factors.

X. Due diligence

Within our investment selection processes, checkpoints are built in to ensure that we act in accordance with our own policies. We refer to the paragraphs above.

More details on our due diligence process are also included in the Manager's PAI statement.

XI. Engagement policy

The Investment Funds invest in Dutch mortgage receivables. Due to the nature of these investments, an engagement policy as referred to in Article 3g of Directive (EU) 2007/36/EC of 11 July 2007, which relates to investments in companies, is not implemented.

That said, the Manager monitors that MUNT maintains a dialogue with the individuals to whom financing has been provided and mortgage advisers with the aim of encouraging borrowers to use their financing to make their owner-occupied homes more sustainable.

Furthermore, CSR policy is a topic during the annual review meetings with our outsourcing parties and the extent to which they have such a policy in place is examined.

XII. Benchmark

The Investment Funds do not use a benchmark linked to sustainability characteristics to compare their sustainability-related performance against.