



Asset Management



Corporate Social Responsibility and  
Socially Responsible Investment (CSRI) policy

January 2023

## Table of Contents

<b>1. INTRODUCTION</b> .....	3
<b>2. CORPORATE SOCIAL RESPONSIBILITY</b> .....	3
<b>3. SOCIAL RESPONSIBLE INVESTMENT</b> .....	4
3.1 ENVIRONMENTAL CONCERNS .....	4
3.2 SOCIAL CONCERNS .....	4
3.3 CORPORATE GOVERNANCE CONCERNS .....	5
3.4 ENVIRONMENTAL AND SOCIAL CHARACTERISTICS PROMOTED BY DMFCO INVESTMENTS .....	5
<b>4. IMPLEMENTATION</b> .....	6
4.1 ENVIRONMENT .....	6
4.2 PEOPLE AND SOCIETY .....	7
4.3 ADHERENCE TO PRINCIPLES AND STANDARDS .....	8
4.4 ENGAGEMENT .....	8
4.5 ASSET ALLOCATION .....	8
4.6 TAXONOMY ALIGNMENT .....	8
4.7 TRANSPARENCY .....	9
<b>APPENDIX I: UN SOCIAL DEVELOPMENT GOALS SUPPORTED BY DMFCO/MUNT POLICY</b> .....	10

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## 1. INTRODUCTION

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DMFCO acts both as an asset manager and as a mortgage lender. We bring together the long-term demand for mortgage finance and the supply of investments. The demand comes from consumers who want to finance their homes with a mortgage. The supply comes from institutional investors such as pension funds and insurance companies.

DMFCO has adopted a Corporate Social Responsibility and Socially Responsible Investment (“CSRI”) policy, which is outlined in this document.

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## 2. CORPORATE SOCIAL RESPONSIBILITY

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DMFCO has a Code of Conduct with the following guiding principles, which are the starting point for all DMFCO's activities. As such, they also shape DMFCO's corporate social responsibility ambitions.

1. One of the core principles of DMFCO's Code of Conduct is our commitment to achieving a good and responsible return on our investments, while taking into account the social and environmental impact of our actions;
2. DMFCO avoids (direct and indirect) involvement in bribery, corruption, exploitation, cartels and other forms of market abuse;
3. DMFCO will seek to ensure that corporate governance is such that the rights of (minority) shareholders are respected, that management has sufficient influence to implement the strategy and policies of the company, that there are sufficient checks and balances within and outside the company, that there is independent oversight, and that the remuneration system is aligned with the long-term objectives of the company;
4. DMFCO makes ethical decisions, is transparent about its policies and implementation and is prepared to account for its policies to clients, participants and others in the event of doubt and/or dilemmas;
5. DMFCO will seek solutions that promote a sustainable and just society;
6. DMFCO aims to create a pleasant, professional working culture where employees are intrinsically motivated by DMFCO's ambitions, given space to contribute in their own way and encouraged to contribute to the best of their ability;
7. DMFCO relies on established parties with proven technologies to outsource our activities. Our aim is to establish a partnership model where outsourced processes and associated systems are enhanced through close collaboration between DMFCO and our business partners, resulting in mutually beneficial outcomes;
8. We will maintain transparency and openness about policies implemented and new developments within the organisation, while allowing investors to exercise significant control over their own investments; and
9. DMFCO believes that it benefits all stakeholders by being a fun company to work for and with.

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### 3. SOCIAL RESPONSIBLE INVESTMENT

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As an asset manager and mortgage lender, DMFCO applies prudent asset management and lending policies in the origination of its portfolio of Dutch residential mortgages, taking into account the following CSRI concerns.

#### 3.1 ENVIRONMENTAL CONCERNS

DMFCO is deeply concerned about climate change and the potential negative environmental impact of its operations and mortgage investments. Therefore, we are committed to working towards carbon neutrality of our business and mortgage portfolio by reducing carbon emissions.

DMFCO's goal is to achieve carbon neutral operations as soon as possible, but no later than 2030. In the meantime, DMFCO is contributing to carbon emission reduction projects.

With regard to the mortgage portfolio, DMFCO's objective is to reduce carbon emissions at least in line with the Dutch government's climate agreement and the Paris Agreement, and to achieve zero carbon emissions by 2050 at the latest. DMFCO is striving to go further, while being aware of the high financial costs, technological advances and societal changes involved.

There are differences in the energy efficiency of the underlying properties of the mortgages. DMFCO is transparent to investors about the energy efficiency of the properties. Furthermore DMFCO encourages borrowers to improve energy efficiency by proactively informing about the advantages of energy saving measures ("**ESM**"), activating them to implement ESM and offering accessible financing options for ESM.

#### 3.2 SOCIAL CONCERNS

DMFCO is particularly aware of the social role of the financial sector. Given the often vulnerable position of the borrower, DMFCO acts as a modern mortgage lender, treating our stakeholders as we would like to be treated ourselves. We have a legal and moral obligation to provide appropriate mortgage products tailored to the borrower's profile and needs, to provide a caring service and to actively prevent over-crediting.

The prevention of over-crediting and the mitigation of credit risk are the objectives of DMFCO's underwriting criteria. DMFCO's policy is based on the standards of the Home Ownership Guarantee Fund (*Stichting Waarborgfonds Eigen Woningen*), the legal conditions of the Temporary Mortgage Credit Scheme (*Tijdelijke Regeling Hypothecair Krediet*) and the Mortgage Credit Code of Conduct (*Gedragscode Hypothecaire Financieringen*).

DMFCO has established procedures to proactively assist its borrowers with any mortgage-related issues that may arise during the term of the mortgage. DMFCO gives priority to the interests of the borrower in situations where the borrower is having difficulty meeting his or her payment obligations. DMFCO continuously analyses the extent to which its mortgage product meets the needs of the borrowers who constitute our target group.

DMFCO complies with prevailing market standards and makes no distinction on the basis of race, religion or sex and prevents discrimination in its mortgage underwriting and servicing. DMFCO is committed to the responsible provision of mortgages to groups in society who may require additional support, such as the elderly, flexible workers, benefit recipients, the self-employed and low-income households.

### 3.3 CORPORATE GOVERNANCE CONCERNS

From the outset, investors have been closely involved in the way we operate. The governance model has been developed jointly and is based on (i) providing investors with a high level of control over their own investment and (ii) being transparent and open about the policies pursued and new developments in the organisation.

DMFCO invests with funds from institutional investors who manage the assets of private or non-private clients. DMFCO is conscious of the interests of the investor and seeks to give the investor as much control as possible while taking full responsibility for the tasks entrusted to DMFCO. A key element is timely and transparent reporting to investors, including comprehensive sustainability reporting.

The interests of DMFCO's stakeholders may diverge. DMFCO is fully aware of this and has adopted policies and procedures to ensure that conflicts of interest are identified, prevented and resolved. DMFCO carefully balances the interests of all stakeholders, particularly those of investors and borrowers. DMFCO recognises that appropriate governance arrangements and a transparent and fair remuneration policy are key elements in achieving this balance.

### 3.4 ENVIRONMENTAL AND SOCIAL CHARACTERISTICS PROMOTED BY DMFCO INVESTMENTS

DMFCO has classified its mortgage funds as Article 8 under the SFDR. This means that the funds promote environmental or social characteristics, but do not have sustainable investment as a core objective.

DMFCO promotes sustainability characteristics by applying its CSRI Policy when making investment decisions. DMFCO's CSRI Policy is leading in reducing the unfavorable effects of the investments on sustainability factors. The following sustainability characteristics related to the investment in mortgage receivables are identified in this policy and considered by DMFCO in managing its investments:

1. The level of energy efficiency of the mortgage portfolio (determined by the energy label);
2. The carbon footprint of the collateral associated with the residential mortgages financed by the funds;
3. MUNT's approach to actively offering financing for ESM to consumers; and
4. MUNT's customer-centric focus on borrowers who are struggling to meet their payment obligations.

The above characteristics, together with the carbon emissions from DMFCO's operations, are continuously monitored by DMFCO's ESG team and regularly discussed with the management team and supervisory boards.

Note: A number of aspects of a general CSRI policy do not apply to investments in Dutch residential mortgages, such as the exclusion of investments in polluting industries, the use of child labour or investments in dictatorial countries. These topics are therefore not included in this CSRI Policy.

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## 4. IMPLEMENTATION

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Corporate Social Responsible Investing is an integral part of DMFCO's investment proposition and is implemented in accordance with the following initiatives.

### 4.1 ENVIRONMENT

As more than 70% of the existing Dutch housing stock has an energy label of B or worse, DMFCO's strategy focuses on encouraging and facilitating homeowners to undertake ESM with the aim of reducing emissions. DMFCO does not exclude mortgages on properties with a low energy label, as the greatest impact can be achieved by improving the energy efficiency of such properties. In addition, DMFCO considers it socially and morally important to include different groups of borrowers and to ensure the maximum availability of mortgage financing in the Dutch mortgage market.

DMFCO uses the following 3-step strategy to encourage homeowners to make their homes more sustainable:

#### **Inform**

DMFCO sees proactive engagement with its borrowers as one of the key points of the CSRI strategy. As the financier of the house, we cannot force borrowers to make their homes more sustainable. However, we can influence them to take ESM measures by showing them the possibilities and benefits of ESM.

In practice, we find that sustainability is most often considered when buying a house. It is therefore important that sustainability is always discussed by mortgage advisors, especially the easy option of financing ESM through a mortgage. This allows homeowners to be more proactive than in situations where only their own money is used for improvements.

It is important for us that mortgage advisors are aware of MUNT's ability to finance ESM so that they can include this topic in their discussions with borrowers. MUNT informs mortgage advisors about the various ESM financing options through the weekly 'MUNT mail', our 'KOP-MUNT' platform, the MUNT website and discussions with MUNT's relationship managers.

In addition to new borrowers, we want to activate our existing borrowers. In order to make MUNT borrowers even more aware of the possibilities of financing ESM, we inform all existing borrowers about the available financing options via regular mailings, the customer portal 'Mijn Hypotheek Online' ("MHO") and the MUNT website.

#### **Activate**

All MUNT borrowers have the opportunity to download a free sustainability profile of their property from the MUNT website. The Sustainability Profile provides an overview of how sustainable the property is, which ESMs are likely to have been implemented and which opportunities exist to further improve the energy efficiency of the property. This overview also shows the expected costs and savings of the ESMs. In this way, MUNT aims to stimulate the borrower by providing concrete information on sustainability improvements, their benefits and costs.

We regularly inform our borrowers through newsletters, which include a link to the MHO customer portal. Within MHO, we provide extensive information on ESM and borrowers can apply for financing directly with just a few clicks.

#### **Finance**

Having encouraged borrowers to take action, DMFCO facilitates home owners by providing accessible, simple and cost-effective ESM financing. By keeping the initial costs and thresholds for ESM financing as low as possible, MUNT facilitates and stimulates both new and existing borrowers:

- New borrowers can borrow up to €9,000 (and 106% LTV) for ESM with no additional income requirements. If a new borrower can achieve an 'energy neutral house' through implementing EBM, they can borrow up to €15,000 without additional income requirements, rising to €25,000 in the case of a '*nul-op-de-meter-woning*'; and
- Existing borrowers can take advantage of a similar scheme by increasing their mortgage. Increasing a mortgage can be costly due to the required advisory, valuation and/or notary fees. This is why we have introduced the '*Energiebespaarbudget*' (EBB), where existing MUNT borrowers can take advantage of a simplified process to borrow €9,000 for ESM. Borrowers can apply for the EBB via customer portal MHO. The documentation required is very limited, mainly a check that their income has not deteriorated significantly since their original mortgage application. Most importantly, there are no advisory, valuation or notary fees. These costs can amount to €3,000 or more, which would make a mortgage increase financially unattractive for ESM.

DMFCO has taken the following actions to reduce emissions from our operations:

- DMFCO strives to be an environmentally friendly business that encourages paperless working, both internally and for MUNT borrowers. The process of accepting mortgages and communicating with borrowers is fully digitalised;
- DMFCO has stipulated in its energy contract that it will only purchase electricity from Dutch wind farms (via Eneco's 'Hollandse Wind' energy label). The wind energy is certified with the Milieukeur certificate from SMK (Stichting Milieukeur);
- DMFCO pays its gas supplier a premium for carbon reduction projects certified according to the WWF Gold Standard;
- DMFCO encourages employees to use public transport by providing a first class train ticket for all employees and a bicycle plan; and
- DMFCO regularly discusses carbon reduction with its outsourcing partners and encourages them to take further steps to achieve carbon neutral operations.

## 4.2 PEOPLE AND SOCIETY

DMFCO's social approach is more than just financing a house. An important component of our social approach is to be there for our borrowers, especially when they are in (financial) difficulty and therefore in a vulnerable position. To prevent payment problems in the first place, MUNT offers its mortgages on conservative terms, taking into account the (future) affordability of the mortgage at an early stage.

To prevent payment problems, MUNT has developed a proactive policy to avoid arrears as far as possible by engaging with the borrower at an early stage. If arrears cannot be avoided, a member of MUNT's Special Servicing Team will be contacted. The Special Servicing team has a wide range of options, within a set framework, to offer the borrower personal support to maximise long-term home retention, such as offering job and budget coaches.

With fair products and prices, DMFCO contributes to meeting the basic needs for housing in a responsible manner. DMFCO does not discriminate in mortgage lending. We make our products accessible and understandable by clearly describing conditions and communicating as clearly as possible. In this way, we ensure that everyone knows where they stand.

DMFCO has a customer-friendly policy and is at the forefront of introducing clear and transparent product terms. For example, the automatic reduction of the interest rate when the LTV falls into a new risk category, as offered by MUNT Hypotheken, has become a market standard.

#### 4.3 ADHERENCE TO PRINCIPLES AND STANDARDS

DMFCO is a member of the United Nations Principles for Responsible Investment (UNPRI) and supports the principles of the UN Global Compact. The UN Social Development Goals supported by the policies of DMFCO and MUNT Hypotheken are outlined in Appendix 1.

In order to support investors who are committed to the Internationaal Maatschappelijk Verantwoord Beleggen (IMVB) Covenant, DMFCO takes into account the principles of the IMVB Covenant.

##### Corporate governance

DMFCO's corporate governance has been designed in accordance with the wishes of Dutch pension funds. DMFCO offers investors exceptional governance arrangements by giving them real control, both in setting the investment mandate and in the way the fund is managed. In addition, investors are able to change investment preferences on a monthly basis, providing additional flexibility in the way the investment is managed. This is in line with our aim to achieve "more than satisfied" investors through open and proactive communication. DMFCO's policy is also focused on:

##### Compliance with standards

- The basic principle is that we always comply with applicable laws and regulations;
- Compliance with the following relevant regulations, standards and guidelines: UN PRI, SFDR, EU Taxonomy and endorsing the principles of the UN Global Compact and the IMVB Covenant; and
- DMFCO's products are classified as Article 8 under the SFDR Regulation.

##### Corporate responsibility

- We are conscious of our role in society as an asset manager in consumer finance. We have a legal obligation, but more importantly a moral obligation, to provide appropriate mortgage products, a caring service and to actively prevent excessive lending;
- DMFCO strives for effective communication in line with our goal of achieving for "more than satisfied" investors through open and proactive communication; and
- DMFCO's remuneration policy complies with all relevant standards and includes contemporary terms of employment without individual variable rewards (bonuses).

#### 4.4 ENGAGEMENT

The investments of the funds consist of mortgage financing for private individuals. Due to the nature of these investments, it is not possible to pursue an engagement policy as referred to in Article 3g of Directive (EU) 2007/36/EC of 11 July 2007, which mainly applies to investments in companies.

MUNT does maintain a dialogue with borrowers with the aim of encouraging them to use their financing to make their owner-occupied home more sustainable. In addition, the CSRI Policy is discussed during the annual evaluation meetings with our outsourcing partners and the extent to which they apply such a policy is reviewed.

#### 4.5 ASSET ALLOCATION

DMFCO will invest 99% of the portfolio in mortgage assets that promote environmental and/or social characteristics. A small portion of the portfolio, 1%, may be invested in ancillary assets that are not aligned with environmental and/or social characteristics, such as cash and cash-like instruments.

#### 4.6 TAXONOMY ALIGNMENT

DMFCO promotes sustainability characteristics through its investments, but it does not assess whether these investments align with the EU Taxonomy.



#### 4.7 TRANSPARENCY

DMFCO's ESG indicators are reported by DMFCO on a monthly basis. In this way, DMFCO provides insight into the sustainable and social impact of its investments.

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

- (i) The environmental indicators identify the carbon footprint, the energy-efficiency (determined by energy labels) and the percentage of ESM construction deposits of the mortgage receivables;
- (ii) The social impact indicator identifies those mortgage loans where mortgages which have been more than 1 month in payment arrears, have been fully cured, and have remained so to date; and
- (iii) DMFCO has identified the risks to investors related to climate change. The main risk in relation to Dutch mortgages is flood risk and DMFCO has made a quantitative assessment of this risk and its possible negative impact on the investor's investments.

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

- New lending criteria with an impact on sustainability;
- Measures taken to motivate and inform borrowers on ESG related home improvements; and
- The number of borrowers in arrears.

## APPENDIX I: UN SOCIAL DEVELOPMENT GOALS SUPPORTED BY DMFCO/MUNT POLICY

DMFCO's supports the UN Sustainable Development Goals. Our focus is on the following UN Social Development Goals (SDGs):

### SDG 1: End poverty in all its forms everywhere

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 borrower first, especially when assessing mortgage applications and resolving payment arrears. DMFCO contributes to reducing exposure to climate related financial shocks by providing ESM financing at favourable conditions.

### SDG 7: Ensure access to affordable, reliable, sustainable and modern energy

Goal 7.3: *By 2030, double the global rate of improvement in energy efficiency*



MUNT Hypotheken offers financing of ESM as allowed 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 DMFCO borrowers.

### SDG 11: Make cities inclusive, safe, resilient and sustainable

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.*



By educating borrowers about the benefits of making their house more sustainable through mailings and the MUNT website, and by informing investors on the opportunities of climate impact via mortgage financing, DMFCO actively contributes to the information provision on climate change mitigation and adaptation.