

PGIM Netherlands B.V. (the “AIFM”)
Statement of Sustainability Risks Integration Policies
(the “Sustainability Risks Integration Statement”)
10 March 2021

INTRODUCTION

Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, as amended (the “**SFDR**”) intends to provide harmonised disclosure requirements for investment products. The SFDR lays down harmonised rules for ‘financial market participants’ on transparency with regard to the integration of Sustainability Risks (as defined below) and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with respect to financial products. For the purposes of this Sustainability Risks Integration Statement, ‘**financial market participant**’ means the AIFM and ‘**Financial Products**’ mean each separately managed account of the AIFM (“**Account**”) and each alternative investment fund managed by the AIFM (“**Fund**”). ‘**Sustainability Risk**’ means an environmental, social or governance (“**ESG**”) event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment.

The AIFM is an alternative investment fund manager, authorised by the *Autoriteit Financiële Markten* (“**AFM**”) in the Netherlands, with registration number 15003620. The AIFM is required to disclose certain information on the integration of sustainability risks in the AIFM’s investment decision-making process in respect of the Financial Products. The AIFM delegates portfolio management to its affiliates as follows:

- In respect of the Accounts the AIFM generally delegates portfolio management to PGIM, Inc. and PGIM Limited.
- In respect of the Funds the AIFM generally delegates portfolio management to PGIM, Inc. which in turn can also appoint certain affiliated sub-investment managers including PGIM Limited, QMA LLC (“**QMA**”) and PGIM Private Capital Limited (“**PPC**”) to manage one or more of the Funds (the “**Sub-Investment Managers**”).

This Sustainability Risks Integration Statement describes how PGIM Fixed Income, operating in the Netherlands through the AIFM, operating in London through PGIM Limited and operating in the United States through PGIM, Inc. (together, “**PGIM Fixed Income**”), integrate Sustainability Risks into their investment decision-making process. This Sustainability Risks Integration Statement also describes how (or whether) the Sub-Investment Managers integrate Sustainability Risks into their investment decision-making process in respect of certain Financial Products. The AIFM acknowledges that the consideration of sustainability factors in the investment decision-making process can have a significant impact on the risk-return of Financial Products.

The Sustainability Risks considered by PGIM Fixed Income and the Sub-Investment Managers will vary depending on the strategy of the Financial Products and also the industry and/or individual issuer. These generally include environmental Sustainability Risks, social Sustainability Risks and governance Sustainability Risks.

INTEGRATION OF SUSTAINABILITY RISKS IN THE INVESTMENT DECISION MAKING PROCESS

PGIM Fixed Income and each Sub-Investment Manager has their own approach to the integration of Sustainability Risks (as summarised below). The SFDR permits financial market participants to explain why for certain products it may not be possible or relevant for that firm to integrate Sustainability Risks into its investment decision making process for a particular product (even where the financial market participant is generally integrating Sustainability Risks). Accordingly, certain Financial Products may be excluded from these policies where it is not possible for PGIM Fixed Income or a Sub-Investment Manager to integrate Sustainability Risks into the investment decision making process. Financial Products which may be excluded include, for example, Financial Products involving portfolio management strategies where it is not possible to integrate Sustainability Risks, including algorithmic, quantitative or high-frequency trading and macro strategies. Where a Financial Product has been excluded from these policies, this will be set out in the offering documents for that Financial Product. The below summarises the position of PGIM Fixed Income and the Sub-Investment Managers on how (or whether) Sustainability Risks are integrated in their investment decision-making process in respect of certain Financial Products.

PGIM Fixed Income

PGIM Fixed Income focuses on public fixed income investments, including broad market strategies, sector-specific strategies, long duration strategies and alternative strategies.

General

The following is a summary of the sustainability risk integration policy of PGIM Fixed Income.

PGIM Fixed Income's investment approach generally seeks to outperform a market-based benchmark over the long-term. Within this context, PGIM Fixed Income considers the credit material governance, social and environmental risks and opportunities of potential investments as part of its research process for all Funds it manages. These risks and opportunities are incorporated into PGIM Fixed Income's fundamental credit ratings.

PGIM Fixed Income's internal credit research group (the "**Fixed Income Credit Research Team**") takes ESG risks as well as opportunities arising from ESG factors into account as part of the analysis of the financial value of the investments it makes on behalf of the Funds it manages.

As part of the credit research process, PGIM Fixed Income's analysts review publicly available information related to ESG factors, as well as information obtained from third-party ESG research

providers and alternative data sources (e.g. NGO analyses, governmental and inter-governmental studies, etc.).

The Fixed Income Credit Research Team may supplement this information through engagement with the issuer. To the extent an ESG factor is considered by the analyst to have a material or a potentially material adverse impact on the financial value of the issuer, PGIM Fixed Income's analysts will incorporate such risks into their fundamental credit ratings and are required to explicitly comment on those issues in their internal credit reports. Fundamental credit ratings are in turn a key factor in PGIM Fixed Income's relative value assessments, and PGIM Fixed Income's portfolio managers will consider material Sustainability Risks when assessing the overall relative attractiveness of potential investments. Equally, ESG factors that are considered to be materially positive will also be reflected in the analyst's credit reports and considered in relative value assessments. PGIM Fixed Income uses a qualitative approach when implementing ESG issues in its investment decisions.

An important focus of PGIM Fixed Income's sovereign research is on macroeconomic stability and debt sustainability. ESG issues feature prominently in this analysis and, in particular, the sovereign ratings process. In addition to a fundamental macroeconomic score that captures pertinent macroeconomic strengths and vulnerabilities, PGIM Fixed Income's sovereign ratings framework is also based upon a comprehensive assessment of qualitative aspects that guide policy making. These aspects include institutional strengths and weaknesses, potential governance issues, as well as social issues that could affect relevant macroeconomic variables. Nevertheless, while PGIM Fixed Income carefully considers the relevant ESG issues, it believes these factors should always be considered within a broader macroeconomic context.

PGIM Fixed Income's analysts will, when applicable, engage with senior management of companies on ESG issues. Credit analysts are encouraged to initiate discussions with senior management should an ESG issue surface during the research process. Analysts may point out to issuers PGIM Fixed Income's assessment of credit-material ESG risks, and where applicable discuss the implications these may have for their funding costs and future market demand for any new issue bonds.

The issues on which PGIM Fixed Income engages from a sustainability perspective as described above are largely the same as those factoring into its fundamental credit analyses. The ESG issues, as well as management's response to the comments (when applicable), are then noted in PGIM Fixed Income's internal credit reports, which are available to portfolio managers.

In line with PGIM Fixed Income's bottom-up, fundamental credit approach, it views issuers' credit profiles from a holistic perspective, rather than separating them into distinct components that must then be reconciled. Therefore, PGIM Fixed Income does not evaluate issuers' Sustainability Risks in isolation, but instead integrates them directly into its fundamental credit ratings, and thus into its relative value assessments. So, while PGIM Fixed Income's portfolio managers are provided with information on Sustainability Risks and take Sustainability Risks into account when making an investment decision, Sustainability Risk would not by itself prevent PGIM Fixed Income from making

any investment. Instead, Sustainability Risk forms part of the overall assessment of an issuer's credit risk, and thus of the assessment of its relative value. This is captured via the inclusion of Sustainability Risks in the fundamental credit ratings, which form part of PGIM Fixed Income's issuer relative value analysis. PGIM Fixed Income does not apply any absolute risk limits or risk appetite thresholds which relate exclusively to Sustainability Risk as a separate category of risk.

- *Environmental and Social*

The environmental and social factors considered during PGIM Fixed Income's research assessment, including Sustainability Risks which may cause a material negative impact on the value of potential investments should those risks occur, will vary depending on the industry and/or individual issuer. In measuring climate risks, PGIM Fixed Income takes account of the "physical" or tangible risks of a sustainability event (for example, the impact of severe climate events leading to business disruption or losses for its investment positions). PGIM Fixed Income also takes account of the "transition" risk, which focuses on the risk to investments as the world moves towards a more sustainable environmental and social model. In addition, PGIM Fixed Income treats Sustainability Risk as both a "standalone" risk, and as a "cross-cutting" risk which manifests through many other established principal risk types (such as operational risks, credit risks, litigation risks, reputational risks, etc.).

The environmental and social risks considered by PGIM Fixed Income generally include, but are not limited to:

- **Environmental risks** may include climate change (both from a transition and physical risk perspective); pollution of air, water and land; harm to biodiversity through changes in land use, deforestation and ecosystem damage; energy inefficiency; generation and poor management of hazardous and non-hazardous waste; and high water consumption/withdrawal needs, especially in water stressed areas.
- **Social risks** may include poor occupational health and safety and process safety; poor product safety and quality; privacy and data security weaknesses; poor labour relations and/or human capital management; breaches of employee rights/ labour rights; human rights violations; child labour/ forced labour; and infringements of rights of local communities/ indigenous populations, etc.

- *Governance*

The quality of governance can be an important investment consideration and it is incumbent on PGIM Fixed Income's analysts to assess governance structures and practices of the issuers PGIM Fixed Income considers for investment as part of the credit research process. PGIM Fixed Income's governance analysis includes, but is not limited to, the following issues: alignment of interests between management, controlling shareholders and other providers of capital; related party transactions; board quality, effectiveness and oversight; management incentives; audit and

accounting issues; quality of risk management; business ethics and conduct issues (e.g. bribery and corruption; anti-competitive practices; advertising/sales practices); and supply chain sustainability practices, etc.

QMA

QMA offers a broad array of investment management services, including quantitative equity and global multi-asset strategies that invest across a range of asset classes. QMA's goal is to meet client investment objectives by closely managing portfolio exposure to expected risk and return.

Although QMA considers a variety of ESG factors across its strategies, currently, QMA does not integrate Sustainability Risks into its investment decision making process for any Fund that it manages because the relevant algorithm underlying the Fund was not constructed taking into account matters such as Sustainability Risks.

PGIM Private Capital Limited

PPC originates investments on behalf of its clients primarily in private credit.

Currently PPC does not integrate Sustainability Risks into its investment decision making for the Fund it manages because the Fund is no longer open for investment nor is it making investments.

DISCLOSURE

The SFDR requires the AIFM to publish on a website information about its policies on the integration of Sustainability Risks in the investment decision-making process. The AIFM satisfies this requirement by disclosing this Sustainability Risks Integration Statement on a website for the purposes of, and in accordance with, Article 3 of the SFDR.

APPROVAL AND REVIEW

This Sustainability Risks Integration Statement has been approved by the AIFM, is effective from 10 March 2021 and will be reviewed on an annual basis by the AIFM and updated, as necessary, for any changes or new arrangements.