Adverse sustainability impacts statement

Wells Fargo Asset Management (WFAM) is a trade name used by the asset management businesses of Wells Fargo & Company. It includes but is not limited to; Wells Fargo Asset Management (International) Ltd ("WFAMI"), Ltd; Wells Capital Management Inc. ("WCM") and Wells Fargo Asset Management Luxembourg S.A. ("WFAML").

- WFAML (549300FKC2W4RW4DGP06) is a UCITS Management Company authorised by the CSSF in Luxembourg. WFAML may delegate discretionary investment management activities to its affiliates (e.g. WFAMI and/or WCM).
- WFAMI (213800F1BB4S4H554W68) is a UK investment firm authorised and regulated by the Financial Conduct Authority and is not directly subject to SFDR, however WFAMI applies the requirements of the SFDR on a voluntary basis. WFAMI is registered as an investment advisor with the U.S. Securities and Exchange Commission. Depending on the investment strategy, WFAMI will either be responsible for making the investment decisions or it may delegate discretionary investment management activities to its affiliate, WCM. WCM is an investment advisor registered with the U.S. Securities and Exchange Commission.

This adverse sustainability impacts statement covers the period from March 10 to December 31, 2021.

The SFDR defines the terms "sustainability factors" as meaning "environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters", and "sustainability risks" as meaning "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment".

Our approach to integrating sustainability factors and sustainability risks in our investment processes and decision-making is consistent with these terms and definitions.

We use the terms "sustainability factors" and "ESG issues" interchangeably in this statement as well as in our comprehensive ESG Policy and Process document, available at wfam.com.

We also use the terms "sustainability risks" and "ESG risks" interchangeably.

"Paris Agreement" has the same meaning as in Recital 2 of the SFDR.

Description of due diligence policies to identify and prioritise principal adverse sustainability impacts

Why we consider adverse sustainability impacts

WFAM integrates sustainability risk considerations into its investment decision-making, as described in WFAM's Sustainability Risk Policy statement. In doing so, we take into account adverse impacts on sustainability factors themselves.

Most of our investment portfolios do not employ explicit objectives to reduce adverse impacts related to environmental, social, and other sustainability factors, nor do they promote the reduction of adverse impacts in communicating with investors. However, as active managers, we believe that companies that perform poorly on material sustainability factors—i.e. companies that cause adverse impacts on those sustainability factors—demonstrate higher downside risk that is generally unrewarded in achieving long-term risk adjusted returns. As a result, as part of our assessment of sustainability risks, our due diligence process considers whether companies are showing adverse impacts on a range of sustainability factors and in that way assesses the impact of investment decisions on such sustainability factors.

The identification and prioritisation of adverse sustainability impacts is therefore focused on those sustainability factors that lead to sustainability risks (as defined in the SFDR).

WFAM-wide identification and prioritisation of principal adverse sustainability impacts

At a WFAM-wide level, we identify, prioritise, and monitor adverse sustainability impacts through our independent risk management function fulfilled by our Investment Analytics team. The Investment Analytics team includes analysts specialising in sustainability, who collaborate with WFAM's centralised Sustainable Investing team to identify sustainability factors and related indicators and scores that are to be tracked across investment teams' portfolios. These scores and indicators are generally related to issuer performance, programmes, policies, or controversies on sustainability factors. Prioritisation of sustainability impacts for this purpose is based on:

- the most salient and significant sustainability impacts that can be tracked across investment portfolios
- impacts that are relevant for understanding of sustainability risks and actual or potential material negative impacts on the value of the investment
- the availability of data, and
- the sustainability factors highlighted by third-party data providers.

The Investment Analytics team, together with the Sustainable Investing team, periodically reviews the suitability of such indicators and scores and assesses whether new or better-suited data could be used.

The Investment Analytics team creates proprietary ESG reports that provide such scores and indicators at the portfolio level and issuer level across a substantial majority of WFAM's investment portfolios. These reports are distributed to the investment teams on a monthly basis. The reports utilise data from third-party data providers such as Sustainalytics and S&P Trucost and also include internal ESG scores using our proprietary ESGiQ scoring framework. For more information on ESGiQ, please read our Sustainability Risk Policy statement and our paper, "Meet ESGiQ: WFAM's ESG risk-assessment framework."

The ESG reports from Investment Analytics help portfolio managers better understand the adverse impacts on sustainability factors and related risk profiles of investments. We believe that a range of sustainability factors, if impacted adversely, could create risk for our investments, and accordingly, we track factors across the environmental, social, employee, human rights, and corruption dimensions for a substantial majority of our investments, through the Investment Analytics team. Examples of such adverse sustainability impacts are provided in the next section, "Description of principal adverse sustainability impacts and actions to address them."

Further, on a monthly basis, significant product-specific, benchmark-relative ESG exposures as well as the firm's most significant exposures to securities with poor overall ESG scores are reviewed with the Office of the Chief Investment Officer (CIO)[1]. This monthly ESG review process helps assess principal adverse impacts and their related risks across WFAM.

1. The Office of the CIO provides oversight for all investment activities at WFAM, including risk management oversight. It comprises senior investment leadership. The function of the Office of the CIO is to oversee risk mitigation actions and to provide credible challenges to portfolio management teams to ensure investment portfolio positions are well understood and consistent with each investment team's stated process.

Additionally, our centralised Stewardship team monitors our portfolios' holdings to identify companies where engagement has the highest impact potential. Using these insights, our investment teams collaborate with our Stewardship team to engage with companies if we have substantial holdings in the company or we own a significant portion of the company relative to its market capitalisation and bond issuances, or if the holding is significant to a specific investment portfolio and/or team within WFAM.

We've designed our engagement framework to balance the following approaches:

- **Sector-specific engagements:** Engage with multiple companies within a sector on material issues as defined by the Sustainability Accounting Standards Board (SASB).
- **Multi-sector engagements:** Engage with companies across sectors on thematic issues that are material and where the companies are laggards, where we recommend ways they can improve.
- **Company-specific engagements:** Engage with companies where controversies arise involving incidents of malfeasance, regulatory or legislative developments, or from societal debates relevant to the company.

Note: Sustainability indicators reviewed through the above processes are generally consistent with some of the indicators included in the draft regulatory technical standards published by the EU in April 2020[2]. As mentioned above, in addition to specific indicators, we broadly track issuers' performance related to sustainability factors by evaluating ESG 'scores' provided by third-party data providers as well as our own internal assessment of these issues through ESGiQ. Such scores generally consider a) an issuer's 'risk exposure' – e.g. whether the type of operations generally produces large volumes of hazardous waste, and b) 'risk management' – e.g. whether the company is reducing, treating, or otherwise handling such hazardous waste adequately or whether it's creating adverse impacts through poor waste management. We are currently evaluating alternative or additional indicators that we may need to acquire data for or track systematically in order to report according to the EU's regulatory technical standards, when such standards are finalised.

Investment portfolio-specific identification and prioritisation of principal adverse sustainability impacts

Through Investment Analytics' ESG reports, monthly risk-review meetings, and WFAM's stewardship platform, principal adverse sustainability impacts are reviewed in a consistent manner across WFAM. A majority of investment teams draw on these resources but may consider other sustainability impacts or further prioritise adverse impacts in a way that is suitable for their asset class and investment portfolio strategies. Investment teams generally consider ESG topics and related scores and indicators that have potential for adverse impacts on both sustainability factors and the value of the investment. When investee entities cause adverse impact on sustainability factors, this can also be a source of risk for the investees and therefore the investment in such entities. The severity and probability of such impacts and risks can vary by issuer, industry, geography, and over time.

Accordingly, our organisation of independent and specialised investment teams conduct their own research and due diligence on sustainability factors, including through engagement with issuers. This research is supplemented with a variety of sources of sustainability information, including that of third-party data providers. The ESG resources provided by Investment Analytics are intended to act as a catalyst for additional research and/or issuer engagement by the investment teams in order to address adverse sustainability impacts and related risks.

For more information on how WFAM considers adverse impacts on sustainability factors that can create investment risk, please see our Sustainability Risk Policy.

Description of principal adverse sustainability impacts and actions to address them

The ESG risk monitoring and reporting tools and monthly risk-review meetings that Investment Analytics provides for each investment team highlight principal adverse sustainability impacts. For example, the ESG reports from Investment Analytics include a carbon profile of the portfolio, benchmark, and individual portfolio constituents. This uses data from S&P Trucost and includes, among other items, the weighted average carbon intensity of the portfolio and benchmark index. The reports

2. Draft European Commission Delegated Regulation supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector with regard to the content, methodologies and presentation of information in relation to sustainability indicators and the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, websites and periodic reports.

also track adverse impacts related to other environmental and social sustainability factors, including tracking the percentage of the portfolio with human rights policies, deforestation policies, GHG reduction programmes, sustainable agriculture programmes, among others. Investment Analytics also tracks exposure to controversial products, including controversial weapons.

Based on Investment Analytics' reports and risk-review meetings, the investment teams then independently determine how best to incorporate those considerations into their investment decision-making. These determinations can result in divestment, diversification, exercise of voting rights, and/or ESG engagement with the issuer/companies contributing to the significant adverse sustainability impacts and related ESG risks highlighted in the reports and risk review briefings.

While the emphasis is on managing or mitigating investment risks and meeting client objectives and guidelines, this generally coincides with reducing adverse impacts on sustainability factors from issuers, as discussed in the previous section. The Office of the CIO oversees risk mitigation actions and provides credible challenges to portfolio management teams to ensure investment portfolio positions are well understood and consistent with each investment team's stated process. However, at this time, we do not have WFAM-wide policies, targets, or requirements that bind investment teams to reducing adverse sustainability impacts.

We also use engagement and proxy voting tools through our firm-wide Stewardship platform to manage adverse impacts on sustainability factors.

As a large, active investment manager, we have the benefit of using a "carrot and the stick" approach, when it comes to assessing investee companies' commitments and WFAM's recourse options. As long-term investors, we take a pragmatic and patient approach to our engagement framework, in an effort to build mutual understandings, which we believe can drive effective results with the issuers in which we invest. Engagement outcomes may require multiple interactions over time, and we develop milestone expectations that WFAM establishes with individual commitments that our investee companies pledge to us.

Should we conclude that an investee company has failed to meet their commitments in a reasonable period, or if the company has other performance or material issues, our initial course of action would be to communicate our concerns to company management and provide our expectations for improvement. Ultimately, our progress on stewardship efforts will affect our fundamental assessment of these companies and, in turn, our willingness to maintain, reduce, or exit our investment positions.

Engagement policies

As active owners of the companies in which we invest, stewardship is an integral component of our investment process. We have built a stewardship platform to reflect our values, and we express our values from this platform in two key ways: engagement with our investee companies and responsible proxy voting. These twin pillars of stewardship help us advance towards two important outcomes: one, improving disclosures and transparency to benefit investment decision-making, and two, driving improvement in corporate operating, financial, and sustainability performance to maximise long-term, risk-adjusted returns and provide value to stakeholders.

We support sound corporate governance principles in our proxy voting and engagement activities. In terms of sustainability factors, we focus on the risk and materiality of the factors brought forward by our own research, and by utilising the SASB materiality framework.

3. Directive (EU) 2017/828 of the European Parliament and of the Council of May 17, 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement.

Importantly, the engagement approach involves both our fundamental analysts across equities and fixed income alongside our Stewardship Team to leverage the deep fundamental research and perspectives of our investment teams. WFAM's proxy voting and engagement policies are applied in accordance with the EU Shareholder Rights Directive II[3]. To read more about our proxy voting and engagement policies, please refer to the following links:

- WFAM Proxy Voting Policy and Procedures
- WFAM Engagement Policy

We provide a regular update on our engagement and proxy voting activities and results. Read WFAM's 2019 Stewardship report for more details.

Reference to international standards

Understanding and contributing to industry best practices is an essential part of our sustainable investing strategy. We have close relationships with numerous leading industry associations, disclosures and standards bodies, and non-profit organisations. We recognise the importance of collective action initiatives in advancing investment thinking and practice to ensure successful investment outcomes and ultimately support the sustainability of capital markets.

Code of Conduct/ International Standard	WFAM role and commitment
Principles for Responsible Investment	WFAM is a signatory to the United Nations-supported Principles for Responsible Investment (PRI), committing to implementing six Principles related to ESG integration. We are represented on the Fixed Income Advisory Committee, contribute to publications and case studies, and have co-hosted industry events. We report on our ESG and sustainable investing activities under PRI's reporting framework.
Sustainability Accounting Standards Board	At the Sustainability Accounting Standards Board (SASB), an organisation dedicated to standardising disclosure of material, industry-specific sustainability information, we are represented on the Standards Board, the Investor Advisory Group, and the Standards Advisory Group. WFAM is also a member of the SASB Alliance.
Ceres	We are Investor Network Members at Ceres, a sustainability non-profit working with influential investors and companies to tackle the world's biggest sustainability challenges, including climate change, water scarcity and pollution, and human rights abuses.
CDP	We are investor signatories to CDP (formerly known as the Carbon Disclosure Project). The CDP runs a global disclosure system and have built the most comprehensive collection of self-reported environmental data in the world.
Climate Action 100+	WFAM is a signatory to Climate Action 100+, a coalition of institutional investors that seeks greater company disclosure around climate change risk and company strategy alignment with the Paris Agreement. As a signatory, WFAM supports the transition to a lower carbon economy consistent with limiting the increase in global average temperature to well below 2 degrees Celsius above pre-industrial levels.
The Green Bond Principles	WFAM is a part of the Advisory Council to the Green Bond Principles & Social Bond Principles (SBP) Executive Committee. The GBP and SBP establish a framework for the issuance of bonds that fund projects with environmental benefits and positive social outcomes.

Task Force for Nature-related Financial Disclosures	WFAM is represented on the Informal Working Group (IWG) of the Task Force for Nature-related Financial Disclosures (TNFD), which aims to create resilience in the global economy by redirecting flows of finance to allow nature and people to flourish.
Stewardship codes	WFAM is a signatory to both Japan's Stewardship Code and the UK Stewardship Code. The codes aim to encourage investor and company engagement in promoting sustainable growth. We commit to engage actively with companies in which we invest, publicly disclose our stewardship and voting activities, monitor investee companies, and manage conflicts of interests through robust policies and procedures.

Furthermore, our parent company, Wells Fargo & Co. (WFC), has published our Code of Ethics and Business Conduct, and our commitment to human rights in our Human Rights Statement.

Other WFC ESG policies and statements can be found at:
https://www.wellsfargo.com/about/corporate-responsibility/goals-and-reporting/

Alignment with the Paris Agreement

At this time, WFAM does not have a firm-wide policy to align all our investments to the objectives of the Paris Agreement. However, our clients are increasingly establishing climate-aligned portfolio objectives, therefore supporting our clients' climate ambitions is a top priority. Through the work of WFAM's Climate Change Working Group (CCWG), we have designed a Climate Transition Framework (please refer to our Sustainability Risk Policy for more information) that enables us to analyse issuers and construct client portfolios to achieve financial and climate objectives, such as alignment with the Paris Agreement and any industry commitments. Additionally, WFAM has been a member of Climate Action 100+ since August 2019, which, as discussed in the table above, seeks company strategy alignment with the Paris Agreement. We utilise carbon and climate data that allows us to analyse the carbon footprint, carbon intensity and other climate-risk related exposures of our portfolios and their benchmarks (some of which are listed and noted under the section 'Description of principal adverse sustainability impacts and actions to address them' of this statement). Read more about WFAM's CCWG in our ESG Policy and Process document at wfam.com.

Through our parent company, WFC, we support the principles of the Paris Agreement, including its goal of limiting the increase in global average temperature to well below 2 degrees Celsius above pre-industrial levels by 2050. WFC endorses the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and is building a robust, centralised approach that seeks to integrate near- and long-term climate-related risk and opportunity considerations into decision-making. For more information, please visit Wells Fargo's Climate Change Issue Brief.