VanEck - Information on the integration of sustainability risks

Sustainability risks
Sustainability risk is the risk that the value of an investment will decline as a result of an environmental, social or governance (ESG) event or circumstance. Environmental events include climate change, scarcity of natural resources and pollution. Social events may include labor issues and product liability. Governance can include themes such as shareholder rights, business ethics, diversity and executive remuneration. Sustainability risks can arise in many different forms. With regard to the theme of climate, for example, there is a distinction between transition risks and physical risks, whereby transition risks can be divided into legal and regulatory risks, technological risks, market risks and reputation risks. In addition, the impact of sustainability risk has various scopes, including company-specific, sector-specific and on country level. The occurrence of a sustainability risk can result in other (financial) risks manifesting. This can negatively affect the value of an investment.

The mitigation of sustainability risks should translate into a company's differentiated financial performance and may have an impact on valuation. European Regulation has also created standards with regards to the integration of sustainability risks in the investment process. VanEck offers two types of investment strategies: active investment strategies and passive investment strategies. Environmental, social and governance issues can affect these investments, both positively and negatively. Therefore, VanEck is committed to taking ESG aspects into account in its investment policy. The best way to do this differs between investment strategy and asset class. For active strategies VanEck has discretion to integrate ESG aspects in its investment decision making, but also for passive strategies, VanEck has various options for responding to sustainability risks. On this page we explain how VanEck integrates ESG risks in its investment strategies.

VanEck applies the following measures:

Exclusion
Exclusions required by international laws and treaties apply to all strategies. VanEck does not invest into companies if this is prohibited by sanctions of the European Union, United Nations or the Office of Foreign Assets Control of the United States.

Voting
As one way of realizing its duty as a responsible active investor, VanEck seeks to consider ESG factors when voting securities owned by the clients for which it has been delegated voting authority. Generally, the majority of proxy votes tend to be management proposals that usually cover more corporate- and governance-related issues (board, audit/financials, capital management, compensation, company statutes, meeting administration and M&A).

Approach for passive strategies
The integration of sustainability risks for passive strategies is mainly surrounded by the index characteristics. In principle, funds with a passive investment policy aim to replicate the index as closely as possible. If the relevant index has no specific sustainability characteristics, neither does the passive fund.

VanEck may actively engage with index providers to increase the sustainability profiles of their indices.

For several of the indices used by VanEck, sustainability risks are reflected to some degree in their composition:

- For several passive funds, a light ESG-screening is applied. The screening consists of two elements: 1. Companies are screened for cluster munition activities. 2. The five worst performing companies in terms of environment, human rights, labour rights and anticorruption are excluded from the investment universe.

- For other indices the process is further elaborated. In addition to the above screening, companies are also screened for sustainability factors based on ESG data and the sustainability factors of the index composition are screened on a periodic basis. Companies no longer satisfying the requirements are replaced.

Approach for Active Strategies

VanEck incorporates sustainability risks in its investment decisions for the actively managed funds through product-specific ESG integration and company engagement efforts.

Company Engagement

The engagement policy of VanEck applies to the active strategies. During the investment period, VanEck seeks to continue to have regular dialogue with senior management and will raise sustainability issues relevant to that company and industry. It may, for example, discuss a board's focus on sustainability or a company's environmental record, safety record, community engagement, energy and resource efficiency and labor relations, among other ESG factors.

ESG integration

Financially material ESG factors are integrated into the investment process. This means ESG issues can affect target prices, the fundamental assessment of a company or country and/or the portfolio construction methodology. For VanEck's active equity strategies, sustainability risks are integrated into the evaluation process for its investments at the moment of decision-making and during continuous monitoring. ESG practices give an indication of an investments' medium- to long-term performance. VanEck assesses sustainability risks by conducting research, including ESG risks, on the investee companies. External resources such as Bloomberg's ESG functionality, Refinitiv data, in-depth research and global issuer analysis from Glass Lewis and third-party sell-side research is used to do so. The method of ESG integration differs across asset classes and is described below:

- *Emerging Markets Equity*

Specific challenges arise with regards to investments in less developed markets, such as differences in governance arrangements with regards to ownership, regulations and local accounting norms and less sophistication and transparency in general around ESG issues. Therefore, VanEck's active investment teams place additional emphasis on sustainability risks related to emerging markets.

A strong or genuinely improving ESG record should translate into differentiated financial performance and have an impact on valuation. In addition, ESG directly impacts the investment team's views about operational risks for potential investments. ESG risks are assessed by looking for both negative proscription and positive progression. ESG considerations are integral to the investment decision-making process itself and, as such, are primarily analyzed in terms of risk to anticipated returns. In cases where it seems warranted, the valuation model for a company may incorporate a higher discount rate or additional estimated future costs to account for certain ESG risk factors. In contrast, the future growth estimates for a company may reflect higher growth opportunities opened up by ESG factors.

Additional exclusions apply to the active VanEck Emerging Markets Equity Strategy with regards to tobacco companies, fossil fuel companies and companies involved in weapons manufacturing.

- *Emerging Markets Fixed Income*

Since ESG factors can impact financial performance, VanEck believes that the analysis of such issues is also an important component of the fixed income research process. They can, for example, be relevant when considering both issuer risk and creditworthiness. VanEck's active emerging markets fixed income team also views governance as a crucial component from the perspective of a bondholder. Regardless of the nature, or the country of domicile, of a corporate bond issuer, the investment team reviews governance factors as integral parts of its due diligence.

- *Gold*

Certain industries such as mining or energy tend to have more persistent environmental and social risks. When either considering or monitoring an investment in those industries, the active investment teams explicitly analyze the risks that may appear in those areas. They also understand the importance not only of adherence to best environmental practices, but also of seeking to safeguard the interests of all stakeholders.

- *Hard Assets*

For investments in hard assets, particular attention is paid to health, safety, security and environment (HSSE) in the investment analysis, not least since a strong HSSE record can correlate with strong operating performance.