Standalone Process Report on ESG Practices

ABN AMRO Funds Parnassus US ESG Equities

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Summary

Information

This document has been developed to complement the prospectus of the Sub-Fund and the Responsible Investment Policy of AAIS (which already outline the processes specific to AAIS). Its purpose is to provide additional transparency by specifically detailing the processes implemented by the Delegated Manager, Parnassus Investments, as well as the operational framework of the Sub-Fund. In this regard, this document serves as an essential tool to meet the requirements of the French ISR Label version 3, while clarifying the specific approaches adopted by each stakeholder involved. It not only structures information related to the methodologies and practices of Parnassus but also demonstrates how these align with ESG commitments of the Sub-Fund.

This document thus strengthens the transparency and compliance of the Sub-Fund with the criteria of the ISR Label while embodying the commitment of AAIS and Parnassus Investments to fully integrate ESG considerations into their management practices.

I. Introduction

1- ABN AMRO Investment Solutions (AAIS)

- **Ownership**: Founded in 1998, AAIS is owned by ABN AMRO Bank N.V. and serves the entire ABN AMRO international clients as well as external clients
- **Location**: AAIS is based in Paris, while its parent company ABN AMRO Bank N.V. is based in Amsterdam.
- **Pioneering Approach**: AAIS has been a pioneer in the open architecture platform and sub-advisory model since 1998, making the selection of top managers in niche expertise a core part of its DNA. AAIS has developed a wide range of open-ended funds covering all traditional and some alternative asset classes and offers the European market exclusive access to some 'ESG Originals'. These are asset managers and boutiques that have responsible investment in their DNA. They have been founded to be responsible management firms.
- **Company Information**: Information regarding AAIS, including assets under management and employee count, can be found on its official AAIS website.
- **Commitment to Responsible Investing**: ABN AMRO Bank N.V., the parent company of AAIS, signed the UN Principles for Responsible Investment on March 1, 2012.

2- Parnassus Investments

- **Founding** -Parnassus Investments (Parnassus) was founded by Jerome L. Dodson in 1984 as an investment management company offering responsible investment funds to the public.
- **Location** - The company headquarters are in San Francisco (United States). The entire investment team is in a single office in San Francisco, promoting an open and collaborative environment for daily interaction.
- **Company Information** - Information regarding Parnassus including assets under management and employee count can be found on Parnassus website.
- **Investment Philosophy** - Parnassus is distinguished by a single collaborative team that applies a unified investment philosophy focused on high-quality companies with sustainable business practices. They prioritize long-term potential, investing with an owner's mindset in companies that create societal and economic value while avoiding those with governance, stakeholder, or environmental issues. Parnassus maintains high standards for portfolio companies, emphasizing ethical operations, stakeholder respect, environmental stewardship, and diversity. By managing concentrated portfolios, they carefully select firms that meet their rigorous criteria. They believe strong governance and sustainability practices drive resilience, innovation, and long-term success for both businesses and investors.
- **Commitment to Responsible Investing** - Parnassus signed the UN Principles for Responsible Investment on April 28, 2008.

3- The collaboration between AAIS and Parnassus

AAIS has delegated the fund's investment management to Parnassus to strategically leverage Parnassus' expertise in the U.S. equity markets and their longstanding leadership in responsible investment practices. This partnership reflects AAIS' commitment to offering investors access to world-class asset managers with a shared focus on sustainability and ESG principles. Despite this delegation, AAIS retains its role as the management company for the ABN AMRO Funds Parnassus US ESG Equities, ensuring strong oversight and alignment with its strategic objectives.

After an extensive and rigorous selection process, Parnassus was officially appointed in 2017 as manager by delegation for the ABN AMRO Funds Parnassus US ESG Equities fund. This collaboration embodies the exclusive sub-advisory relationship, seamlessly integrating the complementary strengths of both AAIS and Parnassus. While Parnassus brings its deep domain expertise in U.S. equities and responsible investment, AAIS contributes its global asset management capabilities and strategic oversight.

For a clearer understanding of how responsibilities are allocated between AAIS and Parnassus, please refer to the chart below, which visually outlines the division of roles and functions within this collaboration.

Source: AAIS

II. ESG Investment Process

1- Investment Philosophy and Approach

The ABN AMRO Funds Parnassus US ESG Equities is a U.S. large-cap core equity fund with a 3-to-5-year investment horizon. Portfolio managers utilize fundamental research to evaluate a company's financial health, business prospects, corporate governance, as well as management of sustainability-related risks and opportunities, with the goal of achieving strong long-term returns. Parnassus integrates sustainability factors into its investment process, viewing them as critical to assessing the quality and risk-return profile of companies. The Sub-Fund focuses on businesses that demonstrate strong governance, ethical practices, and sustainable operations, creating enduring value for both investors and stakeholders. The 4 primary attributes Parnassus looks for in a business for an investment are:

- **Cultivate a Good Workplace**. Support the health, safety and well-being of the workforce to attract and retain the best talent.
- **Minimize Environmental Impact.** Manage natural resources effectively, including reducing emissions, waste and pollution, and mitigating climate and water-related risks.
- **Promote Product Responsibility**. Offer customers safe, fair and ethical products and services, including supply chains.
- **Uphold Strong Governance and Ethics**. Implement strategic and operational goals with accountability and transparency. Avoid legal and reputational risks and be a good corporate citizen.

2- Idea Generation and Screening

Idea generation is driven by sector research across the benchmark universe, and other quantitative valuation and quality indicators. Portfolio managers and research analysts work in sector-specific teams and initiate potential ideas based on companies that fulfil the firm's 4 primary attributes for high-quality companies. However, ideas may be sourced beyond sector team research, such as companies that are outside of the benchmark, revisiting a company that was held before or through idiosyncratic research.

The initial investment universe for the Sub-Fund is defined by its benchmark, the MSCI USA Index. The Portfolio, based on the initial investment universe, is carefully designed to accurately reflect the investment policy while mitigating intrinsic biases that might otherwise distort or artificially lower the quantitative standards. It is important to highlight that the Sub-Fund may, on occasion, invest in securities outside the scope of the MSCI USA Index[1]. To ensure alignment with the French ISR Label requirements,

[1] Issuers added on a discretionary basis may not exceed 10% of the initial investment universe, and the ESG rating of issuers added on a discretionary basis may not be lower than the minimum ESG rating required for inclusion in the portfolio.

Parnassus implements a robust filtering process designed to exclude companies involved in activities deemed unsustainable or controversial.

One of the initial phases in the process of narrowing the investment universe focuses on applying a series of negative screening criteria related to product involvement. The following product-related activities are assessed as part of this screening[2]:

- Adult entertainment
- Alcohol production
- Alcohol sale and distribution
- Cannabis production for recreational use
- Chemical producers
- Cruise Lines
- Dollar Stores
- Factory farms
- Forest-risk commodities
- Palm Oil Production and/or Distribution
- Fossil fuels (in line with the Paris Aligned Benchmark Exclusions)
- Oilfield services
- Fossil fuel pipeline and infrastructure
- Arctic, shale, oil sands E&P and extraction
- Fur and specialty leather production
- Animal testing
- Gambling
- GMO Plants and Seeds (development, growth)
- High-risk medical facilities
- Mining and heavy metals
- Thermal coal mining
- Thermal coal mining supporting products/services
- Uranium mining and nuclear fuel enrichment
- Heavy metals (mining+)
- Construction materials
- Prison system
- Tobacco production; supporting products and services
- Tobacco sale and distribution
- Social Media
- Utilities
- Weapons & military contracting

Another critical step in narrowing the investment universe involves evaluating companies based on their business conduct. This includes assessing:

- Adherence to established human rights standards.
- Exclusion of entities involved in predatory practices, including a review of participation in unethical housing or lending activities
- Comprehensive qualitative assessments are undertaken to ensure consistency with ethical business practices

This sequence of exclusions narrows the universe by a minimum of 30%, utilizing an approach based on the number of issuers[3].

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[2] The exclusion factors listed are used as guiding metric as the manager may apply additional discretion.

[3] This method allows for a more equitable distribution of issuers across the market.

3- Research Framework

Potential holdings are discussed with the entire investment team, and promising candidates that are of interest are analysed to a further extent by team members.

Sector analysts capture the investment thesis across quality attributes to identify quality companies at attractive valuations using a well-defined process, employing many proprietary frameworks, of which the following four are the most prominent:

- Increasing Relevancy: The team analyses whether a company's products or services are gaining share in the overall economy.
- Durable Competitive Advantages ("Wide Moat"): The team assesses the company's current and expected competitive advantage, or moat.
- Strong Management: The team's assessment of management covers analysis and qualitative assessment, including visits to companies at their headquarters and periodic phone contact.

The result of these first three components of the process is an overall assessment of the quality of a company in accordance with the firm's investment goal of investing in quality companies.

- Sustainable Business Practices: The investment team evaluates material risks of sustainable business factors, which may be financial and/or reputational, as well as considering positive factors that may differentiate a company from its peers. The team defines material risks as those that could have an impact on the risk or returns of an investment. Examples of factors that may be considered in evaluating companies include climate-related risk, product safety and quality, human capital management, environmental impacts of operations and products, community and stakeholder impacts, supply chain practices as well as corporate governance.
- Valuation: The final core element of the research process is valuation. The investment team uses a required internal rate of return ("required return") framework to evaluate investment opportunities. For a portfolio manager to initiate or maintain an investment position, they must believe that the investment's return can meet or exceed its required return.

Parnassus underwrites investments to three-year holding periods. Since stocks trade on forward earnings expectations, at the end of the three-year underwriting period the stock will be trading on consensus year-four estimates ("target estimates"). The investment team then analyses the target estimates to assess if they believe the company can outperform these expectations.

Each holding is assigned a required return hurdle by the strategy's portfolio managers, which is based on an estimated range of outcomes for that holding. The required return ranges from 8-20% and is based upon the team's assessment of the risk of permanent loss of capital. Companies with a wider range of outcomes are assigned a higher required return. The portfolio managers evaluate the required valuation relative to the stock's current valuation, its historical average, comparable company valuations and the overall market. Parnassus seeks to invest in stocks that have an attractive required valuation.

The investment process is tracked and documented in a monthly pipeline report managed by the director of research. For new investment ideas, the investment team generally develops a deep dive proposal that the analyst uses for feedback and sponsorship from a portfolio manager. Upon approval from a portfolio manager, an analyst will execute the research plan and create an investment memo that includes a detailed analysis using the investment process to identify a company's relevancy, moat, management and sustainable business practices. The team also creates a financial/valuation model.

4- ESG Assessment

Parnassus conducts thorough internal ESG research while selectively integrating externally sourced ESG data to enhance its company analyses. Its primary external ESG research providers include MSCI, Sustainalytics, and ISS. To ensure accuracy, individual companies' ESG profiles are typically validated through a combination of company disclosures, direct discussions with company management and representatives, and third-party sources. Additional data is drawn from resources such as SEC and proxy filings, government-reported information (e.g., OSHA, EPA, BLM, and MMS), corporate websites, and sell-side ESG reports. When necessary, the team also consults third-party experts for specialized opinions.

Parnassus employs a proprietary qualitative assessment model that does not assign specific weights to the Environmental, Social, and Governance pillars. Instead, the evaluation is guided by the materiality of each pillar within the context of the sector being analysed. This approach, informed by Parnassus' extensive expertise and long-standing commitment to responsible investing, incorporates elements of SASB's Materiality Framework. As a result, the assessment does not generalize the importance of E-S-G pillars but instead tailors the analysis to account for sector-specific factors and the unique characteristics of the companies being evaluated. It should be noted that this methodology may lead to certain companies being more heavily assessed on specific ESG themes based on their material relevance.

Parnassus employs a rigorous pass-or-fail process to assess potential investments. Each candidate undergoes a detailed ESG evaluation in the investment review. These ratings are assigned to the appropriateness of a company for the Sub-Fund. Nonetheless, Parnassus incorporates external sources into its ESG research into its own analysis on companies, a 1–4 scale, with 1 indicating low risk and 4 signifying severe risk. Positive (+) and negative (-) modifiers are applied to indicate the trajectory of the scores. The investment review serves as a critical decision-making tool for Parnassus Chief Investment Officer to determine whether a company is eligible for inclusion in the portfolio.

(i) Environmental

Parnassus prioritizes investing in companies that demonstrate a strong commitment to responsibly managing their environmental impact through comprehensive programs and policies. The evaluation encompasses a wide range of environmental factors across a company's supply chains, operations, and products. Key considerations include energy and water usage, waste management, carbon footprint, toxic ingredients, emissions, and the management of legacy pollution sites and cleanup efforts. Additionally, product lifecycle analyses, packaging recyclability, and end-of-life disposal are assessed to ensure sustainable practices.

(ii) Social

Parnassus assesses social performance through a comprehensive evaluation of factors related to a company's workplace, community relations, supply chain, and product safety, tailoring its analysis to the unique risks and opportunities of each business. Social considerations include workplace conditions, employee satisfaction, diversity, benefits, safety records, labour relations, and supply chain management. Key issues such as discrimination lawsuits, employee turnover, and worker safety are carefully examined, often supported by third-party audits and research. Additionally, the assessment extends to how companies manage their relations with local communities, including transparency, stakeholder communications, and philanthropic activities.

The supply chain is evaluated using disclosures, third-party research, press coverage, and expert opinions to identify effective vendor policies, monitoring programs, and responses to controversies or violations. Companies are also assessed for their management of human rights risks within supply chains, operations, and products, including issues such as forced or child labour, fair wages, worker safety, and grievance mechanisms. For industries such as technology, healthcare, finance, and industrials, sector-specific human rights risks are considered, including data privacy, ethical use of surveillance, access to medicine, affordable drug pricing, and lending to underserved communities. Environmental justice and community engagement in industrial operations are also evaluated.

Product safety is another critical aspect, with the team leveraging third-party research, press coverage, company disclosures, and government-reported information to assess risks such as product recalls, liability settlements, and marketing controversies. This tailored approach is especially relevant for industries like pharmaceuticals, where drug trials and recalls are key considerations.

(iii) Governance

Parnassus places a strong emphasis on evaluating a company's governance practices and business ethics as part of its investment process. Key governance criteria include shareholder-friendly policies (such as capital allocation), transparent reporting, leadership commitment to ESG initiatives, management turnover, board accountability and expertise, executive compensation policies, and ownership and governance structures. Evaluating the strength and quality of a company's management team is particularly critical, with a focus on identifying leadership teams that demonstrate long-term vision, integrity, and shareholder alignment through meaningful stock ownership. The assessment also encompasses historical capital allocation, performance bonus criteria, board independence, and shareholder rights provisions. Additionally, Parnassus evaluates leadership continuity risks by examining the depth of the management bench and the presence of identified internal successors for key executive roles, informed by direct conversations with management and the board.

On the business ethics front, Parnassus considers factors such as corporate culture, litigation or fines, and controversies, including allegations of bribery and corruption. The team's qualitative research includes visits to companies and a thorough understanding of workplace culture, safety practices, diversity initiatives, and talent development efforts, ensuring that the companies selected maintain strong ethical and governance standards.

(iv) Controversies

Managing controversies is a key component of the Sub-Fund's responsible investment approach. In addition to the controversy monitoring and escalation processes outlined in AAIS' Responsible Investment Policy, Parnassus conducts its own independent assessments of controversies involving portfolio companies. These efforts focus on identifying and addressing material risks to ensure alignment with sustainability principles and to safeguard long-term value creation. The combined controversy management efforts of AAIS and Parnassus, supported by AAIS' robust oversight mechanisms, ensure a comprehensive and proactive approach to mitigating ESG risks.

- **Parnassus' Controversy Assessment**

Parnassus monitors controversies using ESG data providers (including Sustainalytics, MSCI, ISS, and Glass Lewis), sell-side research, media, industry sources, and direct company engagements. All holdings are continuously monitored by analysts and portfolio managers, with a formal sustainability review conducted prior to purchase and at least annually. This review includes a formal assessment of any relevant sustainability risks and material controversies, ensuring ongoing vigilance and alignment with the investment philosophy.

Parnassus evaluates identified controversies by assessing their financial and reputational risks, as well as their alignment with ESG objectives. Understanding how a company manages significant controversies is an integral part of the firm's sustainability analysis. Controversies are categorized into at least three levels of severity, based on factors such as occurrence, relevance to ESG objectives, and potential impact:

- **Minor Controversies**: Isolated incidents with limited material impact.
- **Significant Controversies**: Recurring or systemic issues that pose moderate financial or reputational risks.
- **Severe Controversies**: Issues rated "3" or higher by Sustainalytics, or those deemed material and persistent, requiring immediate and thorough evaluation.

Minor and Significant controversies are integrated into formal sustainability reviews. For severe controversies, the assigned analyst incorporates the analysis into the formal Investment Review to ensure a comprehensive risk assessment.

It is important to note that for new portfolio companies, their Managing Director of Sustainable Investment Strategy reviews the sustainability analysis within each Investment Review, including the company's management of controversies. The Chief Investment Officer makes formal approval decisions, while the Director of Sustainability Research reviews and provides feedback on Investment Reviews as necessary.

- **Engagement and Escalation:**

Parnassus follows a structured escalation process for handling severe controversies, which aligns with the firm's ESG stewardship policy:

- **Initiation of Dialogue**: The process begins with additional research and initial engagement, such as calls or letters to company management, to understand their response to the controversy.
- **Reinforcement of Dialogue**: If the issue persists, engagement efforts are intensified through meetings with senior executives or collaboration with like-minded investors.
- **Placement Under Supervision**: Companies with unresolved issues may be placed under closer monitoring or added to Parnassus' internal Caution List, signalling heightened scrutiny.
- **Further Escalation**: If the controversy materially impacts on the company's long-term quality and sustainability, Parnassus may escalate further by filing shareholder proposals or, ultimately, divesting from the company. Divestment decisions are implemented within six months of the decision date.

Controversies are deemed resolved when there is clear evidence that the company has effectively addressed the issue. This may include regulatory or legal resolution, operational or policy changes, or disclosure of corrective actions.

- **Conflict of Interest Management**

To address potential conflicts of interest between the management company and issuers involved in controversies, Parnassus conducts an annual compliance assessment. This assessment, reviewed by the Chief Compliance Officer, evaluates conflicts of interest concerning employees, including all members of the investment team, and companies held in Parnassus' funds. This ensures that all decisions regarding controversies are aligned with the firm's ethical and investment principles.

5- Portfolio Construction and Decision-Making

Only investments that have been approved for investment by the CIO can enter the approved security list. Portfolio managers are responsible for selecting securities for the portfolio from the approved security list. They use their discretion to decide which securities to include in the portfolio and the timing of portfolio buys and sells to pursue the most attractive opportunities.

6- Portfolio Oversight and Monitoring

(i) Parnassus

Parnassus, acting as the delegated external investment manager, implements an ex-ante framework to proactively manage risks and ensure adherence to ESG principles throughout the investment process. This is achieved through pre-trade controls, enabling the identification and prevention of potential risks before transactions are executed. Additionally, the portfolio manager conducts periodic reviews to assess factors that may heighten ESG risks, ensuring that the portfolio aligns with sustainability objectives and avoids exposure to undesirable ESG outcomes.

Exiting a Position Due to ESG Standards - If the covering analyst, director of sustainability research, or managing director of sustainable investment strategy determines that a company no longer meets Parnassus' quality criteria for sustainable practices, the firm may decide to divest. Divestment decisions must be approved by the CIO. Before divesting, Parnassus may engage with the company. If the engagement does not provide sufficient justification for continued ownership, the team may recommend that portfolio managers sell the holding.

(ii) AAIS

AAIS employs an ex-post review process to ensure ongoing compliance with ESG rules and maintain the sustainability integrity of the portfolio. Daily, the portfolio is verified against a predefined list of ESG rules to ensure alignment with sustainability standards. Beyond daily checks, the Manager Due Diligence analyst performs a quarterly verification of the portfolio's overall sustainability level. This monitoring framework ensures that the portfolio not only meets ESG compliance standards but also aligns with broader sustainability over time, maintaining high levels of accountability and adaptability to evolving ESG considerations.

These controls are conducted using independent databases and cover a comprehensive range of indicators to assess various aspects of the portfolio's performance and alignment with ESG principles. For ESG-specific analysis, AAIS leverages data and insights from Morningstar Sustainalytics, a leading provider of ESG research and ratings. AAIS may complement this information with other sources if the security is not covered by Morningstar Sustainalytics.

The Sustainalytics ESG risk approach distinguishes manageable ESG risks (managed risk and gaps in the company's management) from unmanageable ESG risks. The ESG risk score is composed of unmanaged ESG risks that have been identified as deficiencies (management gaps relative to peer group standards) and/or as unmanageable risks (due to, for example, business specificity or regulatory pressures). This breakdown of extra-financial risks results in a final score that is realistic and relevant to the relative importance (depending on the sector of activity) of the ESG criteria (including a forward-looking dimension).

Rating scale: The ESG risk rating ranges from 0 to 100 and distinguishes five levels of risk: negligible (<10), low (10-20), medium (20-30), high (30-40) and severe (>40). In this scale, the lower the score (and thus the risk), the better. Morningstar Sustainalytics reviews ESG scores at least annually based on certified and published documents or earlier in case of major events.

It is important to note that the weighting of the E, S, and G pillars cannot be generalized within the Morningstar Sustainalytics rating framework, as the methodology is based on a materiality analysis that considers factors such as the industry sector and the specific characteristics of rated companies. As such, it should be noted that the Morningstar Sustainalytics rating methodology may result in certain companies being rated more heavily on specific ESG themes than others.

Consequently, the Sub-Fund may have a pillar weighing below 20% in some cases. This materiality approach focuses on the most acute sustainability risks and, in certain cases, underweights some of the 22 Material ESG Issues (supported by more than 300 indicators and 1,300 data points) to ensure the relevance of the rating (which is intended to be absolute, not relative) and to avoid sectoral biases.

Some examples of the justification for the underweighting of one of the E/S/G areas in the ESG Risk Rating analysis by industry. It is important to keep in mind the absolute risk score, in addition to the relative percentages.

Industry	E	S	G	Reasoning
Pharmaceutical	14%	46%	40%	For pharmaceutical companies, most ESG risks are linked to product governance, access to basic services, business ethics, and human capital. Environmental issues, such as emissions, effluents, waste, and carbon (from direct operations), are present but are less significant compared to the social issues. The quality and safety of pharmaceutical products have a direct impact on regulatory approval, the scope of that approval, a product's competitive advantage, and customer trust. Failure to comply with extensive regulations and quality management standards has led to costly recalls, increased regulatory scrutiny, compliance costs, and a loss of customer trust. As a result, environmental factors are considered less material than social or governance issues
Paper Packaging	64%	9%	27%	For paper packaging companies, environmental risks are considered more significant than social risks, as

				the production of paper packaging releases air pollutants, hazardous substances, and wastewater. Such incidents can result in environmental fines and cleanup costs. Additionally, paper packaging companies rely on wood for manufacturing products such as corrugated boxes and cardboard containers, exposing them to risks of deforestation and biodiversity loss through their forestry supply chain. Consequently, social factors are deemed less material compared to environmental or governance issues.
Agriculture	49%	35%	16%	For agricultural companies, the average risk is high, and the sector is exposed to many sustainability challenges. In absolute terms, governance carries the same weight as in all sub-industries, but for this sector, it is far less material. This is primarily due to risks related to resource use, land use and biodiversity, as well as human rights issues within the value chain.

III. Additional ESG-related Processes

1- Integration of Principal Adverse Impacts

AAIS has established a comprehensive framework that outlines how each Principal Adverse Impact (PAI) indicator is considered, including the specific thresholds at which AAIS determines that harm has occurred for each individual PAI. The table below offers a detailed overview of the harm thresholds defined by AAIS for each PAI:

PAI N°	ABN AMRO Defined Harm Level	Methodology
PAI 1: GHG Emissions	PAI 3 is used as a Proxy[4]	Not Applicable
PAI 2: Carbon Footprint	10% of the companies with the highest Carbon Footprint (Scope 1+2[5] only) by NACE Level 1 High Impact Climate Sectors[6]	Peer Ranking
PAI 3: GHG Intensity of investee companies	10% of most GHG intensive companies (Scope 1+2 only) by NACE Level 1 High Impact Climate Sectors	Peer Ranking
PAI 4: Exposure to companies active in the fossil fuel sector	Companies non-compliant with the Paris Aligned Benchmark Exclusions	Binary Criteria
PAI 5: Share of non-renewable energy consumption and production	10% of companies with the highest share of non-renewable energy consumption or production, by NACE Level 1 High Impact Climate Sectors	Peer Ranking
PAI 6: Energy consumption intensity per high impact climate sector	10% of most energy consumption intensive companies by NACE Level 1 High Impact Climate Sectors	Peer Ranking
PAI 7: Activities negatively affecting biodiversity sensitive areas	Companies with involvement in activities negatively affecting biodiversity sensitive areas	Binary Criteria

[4] A proxy indicator is an indicator that closely aligns to the original indicator and hence can be used to analyse very similar negative impacts. If insufficient data is available for the original indicator, and sufficient data is available on the proxy, the use of the proxy allows for signalling the negative impacts indicating the harm associated with the indicators.

[5] Scope 1 carbon emissions, namely emissions generated from sources that are controlled by the company that issues the underlying assets and Scope 2 carbon emissions, namely emissions from the consumption of purchased electricity, steam, or other sources of energy generated upstream from the company that issues the underlying assets

[6] High climate impact sectors are those listed in NACE Sections A to H and Section L (as defined in the Regulation (EU) 2019/2088 and Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments): A - Agriculture, forestry and fishing, B - Mining and quarrying, C – Manufacturing, D - Electricity, gas, steam and air conditioning supply, E - Water supply; sewerage; waste management and remediation activities, F – construction, G - Wholesale and retail trade; repair of motor vehicles and motorcycles, H - Transporting and storage, L - Real estate activities

PAI 8: Emissions to water	10% of companies with biggest emissions of water in industries[7] for which water is considered by ABN AMRO as a material issue	Peer Ranking
PAI 9: Hazardous waste and radioactive waste	10% of companies with most hazardous or radioactive waste in 28 sub-industries[8] where waste is considered by ABN AMRO as a material issue	Peer Ranking
PAI 10: Violations of UNGC and OECD Guidelines	"Non-Compliant" with Sustainalytics Global Standard Screening[9]	Binary Exclusion
PAI 11: Lack of processes and compliance mechanisms to monitor compliance with UNGC and OECD	PAI 10 is used as a Proxy[10]	Not Applicable
PAI 12: Unadjusted gender pay gap	PAI 13 is used as a Proxy[11]	Not Applicable
PAI 13: Board gender diversity	Companies with 0% gender diversity	Binary Criteria
PAI 14: Exposure controversial weapons	Companies with exposure to controversial weapons	Binary Criteria

AAIS is committed to making its best efforts to consider all mandatory Principal Adverse Impacts (PAIs). However, it is important to acknowledge that, given the current state of the Sustainable Finance framework, limitations on data availability and low data coverage may arise. To address these challenges, for PAIs where AAIS' methodology relies on peer ranking, a data coverage threshold of 65% is applied. This means that sectors in which at least 65% of companies have a score for the relevant PAI data points are eligible for consideration.

[7] Chemicals, Construction & Engineering, Diversified Metals, Food Products, Oil & Gas Producers, Paper & Forestry, Pharmaceuticals, Precious Metals, Refiners & Pipelines, Semiconductors, Steel, Technology Hardware, Textiles & Apparel, and Utilities

[8] Paper Packaging; Paper and Pulp; Aerospace and Defence; Diversified Chemicals; Agricultural Chemicals; Facilities Maintenance; Commodity Chemicals; Specialty Chemicals; Rail Transport; Laboratory Equipment and Services; Semiconductor Equipment; Pharmaceuticals; Forestry; Electronic Components; Homebuilding; Semiconductor Design and Manufacturing; Conglomerates; Water Utilities; Business Support Services; Trading and Distribution; Building Products; Construction Materials; Electrical Equipment; Multi-Utilities; Independent Power Production and Traders; Gas Utilities; Electric Utilities; Real Estate Development.

[9] Global Standards Screening (GSS) includes United Nations Global Compact (UNGC), United Nations Guiding Principles (UNGP), OECD Guidelines for Multination Enterprises (OECD) and International Labour Organisation (ILO) screens.

[10] A proxy indicator is an indicator that closely aligns to the original indicator and hence can be used to analyse very similar negative impacts. If insufficient data is available for the original indicator, and sufficient data is available on the proxy, the use of the proxy allows for signalling the negative impacts indicating the harm associated with the indicators.

[11] A proxy indicator is an indicator that closely aligns to the original indicator and hence can be used to analyse very similar negative impacts. If insufficient data is available for the original indicator, and sufficient data is available on the proxy, the use of the proxy allows for signalling the negative impacts indicating the harm associated with the indicators.

Building on the harm thresholds defined per PAI, AAIS considers the criteria for significant harm to be met under the following conditions:

1. **Single PAI Threshold Exceeded:**
   Companies are identified as causing significant harm if any of the following individual PAI indicators meet or exceed the established harm threshold:

   - PAI 4: Exposure to companies active in the fossil fuel sector
   - PAI 10: Violations of UNGC (United Nations Global Compact) principles and OECD Guidelines
   - PAI 14: Exposure to controversial weapons

2. **Multiple PAI Thresholds Exceeded:**
   Companies are also flagged as causing significant harm if two[12] or more PAIs, other than those listed above (PAI 4, 10, and 14), meet or exceed their respective harm thresholds.

Additionally, companies are flagged for review if no data or proxy data is available for three or more PAIs.

The approach described above will be under review, including with respect to developments in data availability, approaches that are used by the market, and the sectors that are currently deemed material for the different PAIs.

2- Climate-Integrated Investment Process

Both AAIS and Parnassus share a strong commitment to addressing climate change by aligning their investments with a net zero pathway. At the firm level, each organization has set ambitious objectives to achieve net zero greenhouse gas emissions. Parnassus pursues this goal through its climate action plan, engaging and collaborating with portfolio companies to adopt and meet science-based emissions targets. Parnassus' goal is to reach net-zero emissions across all Funds' AUM by 2050. Similarly, AAIS is dedicated to this mission through its participation in the Net Zero Asset Managers initiative, demonstrating its pledge to align its investment portfolios with the global goal of net zero emissions by 2050 or sooner.

(i) Parnassus

Parnassus assesses the transition readiness of companies within the Sub-Fund using their science-based target status. It also assesses their transition readiness by benchmarking their Scope 1 & 2 emissions against comparable benchmarks. These analyses are regularly updated. This process is complemented by proactive engagement aimed at

[12] However, as an exception, for each issuer, the PAIs related to Carbon Footprint (PAI 2) and GHG Intensity of investee companies (PAI 3) will not collectively score more than 1 point. This adjustment is made because the two PAIs serve as close proxies and capture similar harm.

fostering the adoption of credible and actionable climate transition plans (i.e., decarbonization plans).

To evaluate the credibility of companies' decarbonization targets, Parnassus leverages the rigorous standards set by the Science Based Targets Initiative (SBTi)[13] and guidance frameworks for risk assessment and climate transition planning such as those from the TCFD, Transition Plan Taskforce, and ISSB. As part of its overarching climate plan, Parnassus has set an ambitious goal for all investment holdings to have SBTi-approved emission reduction targets in place by 2040. In its commitment to achieving net zero carbon emissions, Parnassus actively engages with companies within the Sub-Fund, advocating for climate risk assessment, the adoption of science-based emissions reduction targets aligned with the objectives of the Paris Agreement, and climate transition plans to achieve them. If these engagements fail to yield action within the specified timeframe, Parnassus will evaluate the necessity of divestment – balancing other investment factors and objectives and its fiduciary duty to its clients – as a strategic response to ensure alignment with its climate objectives.

Aligning with the SBTi's criteria requires companies to set targets across Scope 1, 2, and material Scope 3 emissions. The SBTi's Corporate Net-Zero Standard requires companies to establish both near-term and long-term (2050) targets. The current standard instructs companies to prioritize direct reductions, only allowing offsets for long-term unabated emissions.

Parnassus leverages ISS ESG[14] to monitor and track the emission reduction targets of companies within the Sub-Fund. At this time, only companies with decarbonization targets that are either approved by or committed to the Science Based Targets initiative (SBTi) are recognized by Parnassus as having science-based reduction targets. Science-based targets are the primary proxy used to measure transition planning intent[15].

In addition to leveraging data from ISS ESG, Parnassus performs a comprehensive qualitative sustainability analysis of all companies within the Sub-Fund on at least an annual basis. As part of that analysis, should Parnassus identify material shortcomings in a company's targets or action plan for its net zero transition, a deeper qualitative assessment of the company's extra-financial reporting may be undertaken, and engagement may follow. Where material, this assessment should involve reviewing

[13] The SBTi is a collaborating initiative involving organizations like the Carbon Disclosure Project (CDP), United Nations Global Compact (UNGC), World Resources Institute (WRI), and World Wildlife Fund (WWF). Its main objective is to ensure corporate climate strategies effectively contribute to global efforts in limiting temperature rise. It aligns with the goals of the Paris Agreement, as companies are expected to set reduction pathways consistent with limiting global temperature rise to 1.5°C above pre-industrial levels.

[14] To enhance accuracy and reliability, Parnassus may also cross-reference ISS ESG data with the publicly available SBTi target dashboard when necessary.

[15] This approach ensures alignment with the relevant Principal Adverse Impact (PAI) indicator, specifically PAI indicator n°4 from Table 2 of the Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022, which pertains to investments in companies without carbon emission reduction initiatives aligned with the Paris Agreement.

Sustainability/ESG/Impact reports, CDP disclosures, ISSB standards, and other relevant data sources to evaluate the presence of the following key criteria in part or in whole[16]:

- Robust climate risk assessment aligned with third-party standards
- The presence of forward-looking, time-bound, quantitative, science-based goals, and supporting interim targets.
- A decarbonization or climate transition plan and financial resources (Capex/OpEx) allocated to climate initiatives, and supported by business case analysis (e.g., ROI, expected payback)
- Clearly defined roles, responsibilities, and accountability mechanisms at various organization levels, along with identification and demonstration of necessary competencies, training, and skills. Management and executive compensation with clearly defined climate-related KPIs.
- Identification of potential positive and negative impacts of the company's climate transition strategy on stakeholders, and efforts to mitigate adverse effects.
- Regular, quantitative, and publicly available reporting that includes candid discussion of any gaps and current initiatives to overcome them.

(ii) AAIS

As the Management Company, AAIS monitors and evaluates the GHG reduction targets of issuers within the Sub-Fund. AAIS tracks the percentage of issuers in the Sub-Fund that have approved or committed science-based targets. Progress is reviewed and reported on an annual basis.

[16] These criteria are based on the recommendations from the Glasgow Financial Alliance for Net Zero (GFANZ) and the Transition Plan Taskforce Disclosure Framework.

IV. Engagement Process

Engagement is a fundamental pillar of the Sub-Fund's responsible investment approach. Beyond the engagement initiatives and processes detailed in AAIS' Responsible Investment Policy, Parnassus undertakes its own independent engagement activities. These efforts emphasize direct dialogue with portfolio companies to promote the adoption of practices aligned with sustainability principles and ESG objectives, while also fostering collaborative initiatives to drive impactful change[17]. The combined engagement efforts of AAIS and Parnassus, alongside proxy voting managed by AAIS, create a comprehensive and integrated approach to stewardship, fostering meaningful dialogue with issuers and driving responsible corporate practices.

This section provides an overview of Parnassus's engagement process.

Professionals doing engagement at Parnassus.

Parnassus has a dedicated Sustainability and Stewardship team, which includes the managing director of sustainable investment strategy and four other team members at the director, senior analyst, and analyst level. Parnassus takes a team-based approach to sustainability research, including engagement efforts. Typically, each impact engagement theme will have an assigned engagement lead, with support provided by members of the sustainability and stewardship as well as fundamental investment research teams. Portfolio managers and research analysts regularly collaborate with the Sustainability and Stewardship Team on company engagements.

Engagement at Parnassus

Parnassus defines stewardship as the responsible management and oversight of factors that create enduring value for clients. Engagement and advocacy are the main approaches the Parnassus Stewardship Team uses to drive long-term sustainable value creation at portfolio companies. Parnassus engages companies to build value for clients and to mitigate potential material risks to portfolios.

Through its engagement efforts, Parnassus seeks constructive dialogues that lead to demonstrable improvements in ESG disclosure and performance, with an aim to benefit portfolio companies, their stakeholders, and Parnassus' clients. The firm believes that integrating ESG factors into decision-making processes enables companies to better manage risks, build more resilient business models, and identify long-term opportunities for leadership and innovation. Engagements may be event-driven or represent ongoing concerns. Parnassus may also engage to better understand a company's governance, strategy, risk management or metrics and targets around material issues.

The stewardship team focuses the majority of its efforts on programmatic engagements. The team also prioritizes engagement with higher-risk companies, or on idiosyncratic risks as they arise, as determined by the Stewardship Team in collaboration with the

[17] Parnassus is a member of various organizations that promote responsible investing

covering analyst. The covering analyst may lead other single company engagements. The team conducts engagements in a variety of ways, including:

- Speaking or meetings with company management teams or other company representatives
- Letters from Parnassus to management or boards of directors
- Participating in collaborative efforts with industry peers, such as sign-on letters or engagement through working groups
- Filing shareholder proposals
- Other methods of communication

When selecting engagement topics for companies within Parnassus' portfolios, the stewardship team carefully evaluates their relevance to the companies' operations, products, and stakeholders. This process includes assessing related risks and opportunities that could influence the companies' long-term success. Key factors considered may include regulatory, reputational, legal, competitive, market, and sustainability-related risks or opportunities, among other strategic considerations.

As part of the process of proposing an engagement, the lead stewardship team member or analyst determines what outcome would constitute a successful engagement. Upon completion of an engagement, the team member completes an engagement summary that includes the results of the engagement and whether it was a success. If engagements are unsuccessful or companies are insufficiently responsive, the team may use escalation tools, including organizing other investors to engage the company or filing shareholder proposals.

It is important to note that Parnassus concentrates its corporate engagement on the companies it holds. The firm may engage on risks or issues when the investment team considers that issuer as an investment but generally won't continue the conversation if the investment team decides not to invest in the company. There are certain exceptions, for example when the firm participates in collective efforts relevant to an industry. Examples include signing up to a shareholder letter to an industry organization or advocating an ESG position at one company as part of a greater investor effort targeting the industry. Parnassus' managing director of sustainable investment strategy also speaks at company conferences about the importance of ESG topics.