



## PRI Reporting and Assessment survey 2010 Full Responses

Your organisation:

**KfW Bankengruppe**

### Organisational overview

This section determines which questions in the survey are relevant to your organisation. Your organisation's characteristics also play a role in determining your peer group for benchmarking. Therefore, please ensure you provide accurate answers.

You will be provided with an *Other* category in some questions, but please only use this option if the alternative selections listed do not represent you in any way, as this may prevent you from having results comparable with peers.

**You will not be able to continue the online survey until you have fully completed both this section and the 'Governance, policy and strategy' section in this respective order.** However, if you wish to begin preparing your answers for the following sections you may do so by reviewing the full list of questions and explanatory notes in the manual provided on the [PRI intranet](#).

This section may require you to collect information from multiple sources. We strongly recommend you begin collecting this information as soon as possible and before commencing the survey. For support in assembling this information, you may use the Data Collection Forms which list some mainly quantitative questions that may require greater effort to obtain. You can also download these forms on the [PRI intranet](#).

This section of the survey is not scored.

### Q 2 What category best describes your organisation?

Please select **one category** which best represents your **primary activity**.

Asset owners (AOs)  
Other asset owner - please specify:  
promotional bank

### Q 6 Please indicate the number of staff your organisation employs and select the level of complexity that best describes your organisation?

Approximate number of staff: 3600

Level of complexity of organisation: Simple

### Q 7 What were your organisation's total assets under management as of 31 December 2009, including the assets of all your consolidated subsidiaries?

|            | billions   | millions | thousands | units |
|------------|------------|----------|-----------|-------|
| Total AUM: | 24         | 126      | 000       | 000   |
| Currency:  | Euro (EUR) |          |           |       |

**Date of assets under management figure**

|       | year | month    | day |
|-------|------|----------|-----|
| Date: | 2009 | December | 31  |

The amount you indicated above is roughly equal to the amount calculated below in United States Dollars. Please confirm that this figure is approximately correct before proceeding. Exchange rates are from the International Monetary Fund.

Source: *IMF Exchange Rate archive, December 2009*

|                   | billions | millions | thousands | units |
|-------------------|----------|----------|-----------|-------|
| Total AUM in USD: | 34       | 755      | 921       | 534   |

**Q 8 Please provide an approximation of your average asset mix for 2009 or your most recent count, in %.**

(+/- 5 % is sufficient, the sum of all the fields must be 100 %)

| Asset class  | Internal active | Internal passive | External active | External passive |
|--|-----------------|------------------|-----------------|------------------|
| Listed equity (developed markets)                        | %               | %                | %               | %                |
| Listed equity (emerging markets)                         | %               | %                | %               | %                |
| Fixed income - sovereign and other non-corporate issuers | 13 %            | %                | %               | %                |
| Fixed income - corporate issuers                         | 76 %            | %                | 11 %            | %                |
| Private equity   | %               | %                | %               | %                |
| Listed real estate or property                           | %               | %                | %               | %                |
| Non-listed real estate or property                       | %               | %                | %               | %                |
| Hedge funds  | %               | %                | %               | %                |
| Commodities  | %               | %                | %               | %                |
| Infrastructure   | %               | %                | %               | %                |
| Cash   | %               | %                | %               | %                |
| Other - please specify:                                  | %               | %                | %               | %                |

Please contact the PRI Secretariat at [assessment@unpri.org](mailto:assessment@unpri.org) before indicating that more than 10% of your assets fall into the 'Other' category. A response of 'Other' may render the benchmarking results less useful for you and your peers.

If you manage balanced or multi-asset class products with listed equity, fixed income and potentially other asset classes, the relative assets in these funds need to be separated out into the different asset classes.

**Total (must add up to 100%): 100 %**

**Q 10 What percentage of your externally managed assets are managed by PRI signatories?**

(+/- 5% is sufficient)

Percentage: 50 %

## Governance, policy and strategy

This section is focused on the governance, policies and strategies guiding your organisation's approach to responsible investment (RI). 'Policy' in this section may refer to one overall RI policy or multiple policies that address various elements of RI or ESG issues. Some questions in this section are scored, while other questions are not scored but do determine the applicability of subsequent questions.

Please make sure you provide accurate answers. You will not be able to enter this section unless you have completed the "Organisational overview" section. You will not be able to continue the survey until you have finalised this section. However, if you wish to begin preparing your answers for the following sections, you may do so by reviewing the full list of questions and explanatory notes in the manual provided on the [PRI intranet](#). This section will be scored separately from the six Principles.

### Q 11 Please provide a description of how your governance, policies and strategies address RI and ESG issues.

**Note that this text - in addition to being part of the full survey - will also be part of the *Executive Summary* of the survey. The *Executive Summary* is a separate document that will collate the text you provide for each of the introductory sections of the survey (GPS and the six Principles).**

A commitment to sustainability is fundamental to our overall philosophy. Environmental and social guidelines have been developed that apply to all areas of the bank; they ensure that promotional projects which we co-finance in Germany and abroad do not present any unacceptable environmental or social risks. As a bank owned by the German Federal Government and the German Federal States, we implement these guidelines following accordance with the Federal Government's sustainability strategy. This is also evident in KfW's 'Statement on environmental protection and sustainable development', which is presented to the Bundestag. In that document, the Bank reaffirms its commitment to its obligations under the 'UNEP Statement by Financial Institutions on the Environment and Sustainable Development'. KfW IPEX-Bank's sustainability policy for project and export finance operations (revised in November 2007) is of particular interest here. In anticipation of KfW IPEX-Bank's March 2008 commitment to the Equator Principles, this policy not only implemented the highest international standards for project assessment, but also served to broaden their scope of application. KfW Bankengruppe's compliance framework includes special legal provisions governing KfW. Furthermore, KfW is also member of Transparency International. This organisation supports national and international efforts to combat corruption. Anti-corruption provisions are included in KfW's contracts with our international partners. Our promotional mandate and our values make social responsibility an inherent part of KfW's business activities. This is set out in our guideline document 'Responsibility in society - the environmental and social principles of KfW Bankengruppe'.

### Q 12 Do you have a policy or a set of policies that make specific reference to responsible investment, and if so, do they cover environmental, social, and governance issues?

Please select "Yes" or "No": Yes

If "Yes", which issue(s) does it cover? Environmental  
Social  
Governance

### Q 13 For the following asset classes, to what extent has your policy or approach to responsible investment been incorporated into internal management processes (e.g. business planning, strategic planning, or similar)?

Extent that your approach has been incorporated into internal management processes

Please select:

"Large", "Moderate", "Small" or "Not at all"

Asset class

Fixed income - sovereign and other non-corporate issuers

Large

Fixed income - corporate issuers

Large

### Q 14 Among the roles within your organisation:

- Who has a clear responsibility related to responsible investment implementation?
- Whether they are incentivised and/or trained on RI/ESG considerations?

|   | Roles present in your organisation | Responsibilities on RI/ESG | Incentives  | Training     |
|---|------------------------------------|----------------------------|---|--------------|
|   | Please check all that apply        |                            | Please choose among "Yes, for all", "Yes, for some" or "No" |              |
| Board of trustees or board of directors and their committees      | Yes                                | Yes                        | N/A   | No           |
| Chief Executive Officer or Chief Investment Officer or equivalent | Yes                                | Yes                        | Yes, for all  | No           |
| Other senior management   | Yes                                | Yes                        | Yes, for all  | Yes, for all |
| Portfolio managers  | Yes                                | Yes                        | No  | No           |
| Analysts  |                                    |                            |   |              |
| Researchers   |                                    |                            |   |              |
| RI or ESG specialist  | Yes                                | Yes                        | Yes, for all  | Yes, for all |
| Other - please specify:   |                                    |                            |   |              |

**Q 15 Select any of the following RI, ESG and/or SRI approaches that you or your external investment managers currently apply in the investment decision making process.**

**Please note that this question helps determine which questions you will be asked in subsequent sections, so please carefully review the definition of each possible answer.**

**Please select all those that are relevant (columns are visible based on your answer to Q8 on asset classes breakdown)**

Internally managed

Externally managed

Exclusion based on ethical criteria

Screening as a way to avoid the potential negative publicity surrounding the companies/sectors in question as it may adversely reflect on you or your manager's brand/license to operate

Screening based on a belief that exclusion or inclusion of certain investments from your investment universe can have a material effect on portfolio performance

ESG analysis within individual investment decisions, possibly including these factors into valuation and investment performance models



Themed investing

None of the above (this reply excludes any of the above)



**Q 17 Please select any of the following active ownership activities that you, your external service providers or your external investment managers currently undertake on behalf of your organisation?**

**Please note that this question helps determine which questions you will be asked in subsequent sections, so please carefully review the definition of each possible answer.**

You may select any approach you or your external managers, service providers or partner entities adopt on your behalf

Engagement on ESG issues with listed equity or fixed income issuers in the following asset classes: listed equity (developed markets), listed equity (emerging markets), listed real estate/property, listed securities held in hedge funds, or fixed income - corporate issuers.



Ownership and engagement activities focused on ESG issues related to investments in the following asset classes: Listed equities which permit a significant control, sovereign and other non-corporate fixed income, private equity, non listed real estate/property, hedge funds, infrastructure, or other.

None of the above (this reply excludes any of the above).

**Q 18 Please add any overall comments and clarifications related to governance, policy and strategy here.**

Our sustainable investment approach is based on the German Federal Government's sustainability strategy, internal environmental and social guidelines and KfW's code of conduct ('KfW Compass'). Around one hundred criteria have been established to monitor business practices and performance in the areas of corporate governance, the environment and social issues. Our external partner Sustainalytics uses those criteria to produce ratings, so governance considerations are fully integrated into our approach.

## Principle 1 - We will incorporate ESG issues into investment analysis and decision-making processes.

This section focuses on the integration of ESG considerations into the investment process. The questions are split into three sections. Only questions relevant to your organisation will be displayed, based on your responses to Q 8 (your investment management structure and asset class breakdown).

The three sections are:

- I. Internally and actively managed investments;
- II. Externally and actively managed investments; and
- III. Passively (both internally and externally) managed investments.

Some questions in this section are scored. Any question that is scored, but is not relevant to your organisation, based on your investment management structure and asset class breakdown or other responses, will not affect your overall score for Principle 1.

You do not need to complete Principle 1 questions before completing questions for other Principles. While completing this section you are free to navigate to any of the other sections of the survey without losing answers already completed.

### **Q 19 Please provide a description of your organisation's approach to this Principle. For example, how do your organisation's investment analysis and decision-making processes incorporate ESG issues?**

**If your assets are managed both internally and externally, please describe how you address this in both portions of your assets. In addition, please describe any activities you may be doing to integrate ESG issues into the management of those investments that passively track indices (if you use this approach).**

**Note that this text - in addition to being part of the full survey - will also be part of the *Executive Summary* of the survey. The *Executive Summary* is a separate document that will collate the text you provide for each of the introductory sections of the survey (GPS and the six Principles).**

KfW's promotional mandate requires the bank to consider sustainability issues in its business activities. As part of its liquidity management activities, KfW possesses a 'liquidity portfolio' which is purely fixed-income. A sustainable investment approach has been applied to this portfolio since 2008. Along with credit quality, sustainability considerations form the basis of decisions on investment volumes.

In order to develop a sustainable investment process, it was first necessary to implement the concept of 'sustainability' into our business practices. The sustainability strategy of the Federal Government, internal environmental and social guidelines, KfW's mission statement and core activities all served as a platform for this implementation. Environmental, social and corporate governance considerations were assessed and described in detail using around one hundred individual criteria. Since KfW sees itself as an 'environmental bank', environmental aspects were assigned a weight of 60%. Social and corporate governance issues are weighted at 20% each. Performance against each of these elements is evaluated by a specialist rating agency.

Our external partner Sustainalytics uses this system to produce sustainability ratings for all issuers in the portfolio every month. Based on these sustainability scores, the portfolio is subdivided into three groups: issuers with a relatively good rating, those with a lower rating and those with a poor rating. Sustainability is not expressed as absolute grades - as in conventional credit ratings - but in the form of rankings, that is, relative ratings based on comparisons within the appropriate industry. This method of rating makes it possible to establish a hierarchy of all the issuers in KfW's portfolio, ranked according to their degree of sustainability.

Whether an issuer is admitted to any of KfW's portfolios depends first and foremost on its financial standing, which is assessed under an internal process with clearly defined limits. Sustainability ratings are applied later, during the selection of issuers in a downstream process. In addition to financial standing, an issuer's classification within these three groups is crucial in determining the amount that may be invested in its securities. The prescribed investment limits will be maintained or may be subject to further restriction, dependent upon that classification. The '20-60-20' rule classifies the investment universe into the top 20% (high-quality issuers), the next 60% (issuers of medium quality) and the bottom 20% (poor-quality issuers). For the top 20% the predefined investment limits are applied without change. Investment limits for the 60% medium quality issuers are reduced by 10%, and limits for the bottom 20% are reduced by 30%.

This approach provides an incentive for issuers to improve their sustainability rating, either to prevent reductions in investment limits, or to increase limits that have already been reduced. Furthermore, this method of classification has an element of competition: an improvement in an issuer's sustainability rating leads to an improved position in the rankings. This promotion has an impact on the rankings of other issuers, who must now demonstrate improved sustainability to regain or advance their former rank.

**Q 20 What percentage, by asset class, of your organisation's assets under active management internally integrate the consideration of RI/ESG issues in investment decision making processes - such as researching ESG information and/or constructing/managing portfolios - and to what extent?**

| <b>Asset class</b>                                       | <b>What percentage of assets under active management internally (see example in notes)</b><br>(+/- 5 per cent is sufficient) | <b>Research (gathering and analysing)</b>   | <b>Portfolio construction and management</b> |
|--|--|---|--|
|  |  | If percentage is greater than zero, please select: "Large", "Moderate", "Small" or "Not at all" |  |
| Fixed income - sovereign and other non-corporate issuers | 75 %   | Large   | Large  |
| Fixed income - corporate issuers                         | 75 %   | Large   | Large  |

**Q 21 For the assets under active management internally that integrate the consideration of RI/ESG issues, to what extent do you have a process for monitoring the capability of investment analysts, portfolio managers and other relevant investment professionals on how they integrate the consideration of RI/ESG issues into investment analysis and decision-making processes?**

| <b>Asset class</b>                                       | <b>Monitoring</b><br>Please select:<br>"Large", "Moderate", "Small" or "Not at all" |
|--|---|
| Fixed income - sovereign and other non-corporate issuers | Small   |
| Fixed income - corporate issuers                         | Small   |

**Q 25 Please add any overall comments and clarifications related to Principle 1 here. Please also describe any significant activities relating to Principle 1 not already captured by your answers above.**

As a promotional bank, sustainability is a key principle in all our actions. Whilst every area in our business must follow corporate guidelines, our approach to sustainability in portfolio management merits particular attention. KfW chose not to adopt a standard format offered by external service providers; the design -especially the definition of the hundred criteria for sustainability in the areas of environment, social issues and corporate governance - was developed in-house. This underlines the significance for KfW of sustainability in investments and emphasises KfW's independence.

Internal guidelines restrict the investment universe generally to financials, covered bonds and government bonds. These restrictions are a challenge for sustainable portfolio management: the two methods normally used to introduce sustainability into portfolio management - the 'best in class' approach and exclusion criteria - are not viable for KfW. The 'best in class' approach would further restrict the investment universe, while most exclusion criteria do not apply to investments in bank bonds and covered bonds. Nevertheless, in 2010 KfW is starting an internal project integrate exclusion criteria into our well-proven approach.

The procedure which allows every issuer's individual sustainability rating to influence investment limits is a useful innovation. It enables the creation of a sustainable portfolio, even in restricted investment areas with a relatively small universe. Whilst only 20% of all issuers maintain their limit, 80% of portfolio members are confronted with direct consequences from their actions and achievements in the area of sustainability. When an issuer's limits are reduced, further investment is curtailed, and will ultimately be blocked if the limit cut leads to an investment stop. The portfolio's sustainability level is continuously assessed by means of monthly rating updates and by regular re-evaluation of the approach's efficacy and outcomes.

Another feature of KfW's approach to sustainability is its competitive element. Those issuers with good sustainability ratings only maintain their limits if they defend their position in the long run. Improvements in sustainability ratings lead to a better position in the rankings. Since a change in the ranking of any one issuer automatically influences the position of the others, an issuer may also be demoted to a lower group under the '20-60-20' rule, with consequences for their individual limit situation.

## Principle 2 - We will be active owners and incorporate ESG issues into our ownership policies and practices.

This section is focused on active ownership and is divided into three parts. You will see only those questions relevant to your organisation.

The first part addresses voting related to listed investments. The second part addresses non-voting engagement activities undertaken by your organisation or on your behalf by third parties with listed equity and corporate fixed income issuers. For the purpose of this survey, the term 'engagement' refers to non-voting contact with companies to discuss concerns regarding ESG issues. The third part addresses ownership and engagement practices for other asset classes such as sovereign and other non-corporate fixed income issuers, private equity, non-listed real estate/property, hedge funds, and infrastructure. This third section also covers any listed equities where investors have significant control (as defined in Q9, explanatory note [B]).

The third section is necessary to account for the differing levels of influence that investors may acquire when investing in other asset classes versus those of listed equities.

The contents and parts for this section of the survey are therefore:

1. Voting and engagement activities related to listed equity investments undertaken by:
  - A. internal staff;
  - B. external parties (e.g., service providers and external managers).
2. Engagement activities related to fixed income issuers;
3. Ownership and engagement activities for sovereign and other non-corporate fixed income, private equity, non-listed real estate and property, hedge funds, and infrastructure, as well as listed equities when they represent significant control.

While completing this section you are free to move to any of the other sections of the survey without losing work already done.

Please note that for this survey, proxy voting activities entail any casting of votes at AGMs as well as the filing or co-filing of resolutions. Engagement activities refer to all interactions with investee companies that are not related to voting activities. Engagement activities should seek to achieve relevant information and promote better ESG performance by companies. Such activities usually involve written communications, phone calls and meetings with management. Working with governments to modify laws, rules and regulations in favour of ESG issues should not be counted as engagement in this part of the survey and it will be addressed separately in Principle 4 and 5.

### Q 26 Please provide a description of your organisation's approach to this Principle. For example, how is your organisation an active owner and how does it incorporate ESG issues in its ownership policies and practices?

**Describe both your voting activities and any other engagement activities you undertake across the different asset classes you hold.**

**Note that this text - in addition to being part of the full survey - will also be part of the *Executive Summary* of the survey. The *Executive Summary* is a separate document that will collate the text you provide for each of the introductory sections of the survey (GPS and the six Principles).**

Equity exposure is not part of our asset allocation, since KfW doesn't own equity for its own purposes. The only equity positions in 2009 have their origin in restructured loans and hence do not form part of strategic asset allocation.

In the context of our fixed income portfolio, KfW surveyed 19 business partners on ESG and PRI topics. We wanted to know why some banks had not signed up to the PRI while their asset management subsidiary had done so, indicating that the required knowledge existed within the organisation. We also asked how they incorporated sustainability aspects within their loan and asset management business, especially if they used exclusionary criteria, and how they raised the profile of SRI. The answers have been collected and prepared so that we can compare external experiences with our own findings on PRI implementation. The collected data has been passed on to staff members who have direct contact with the institutions concerned.

Another engagement activity addressed all the fixed income corporates in our liquidity portfolio: we distributed KfW's sustainability report to roughly 150 issuers with an accompanying letter which emphasised the importance KfW attaches to ESG considerations in its investment decisions.

### Q 37 Do you have a written engagement policy or other documents that direct engagement with listed equity and fixed income issuers; if so, do these policies address environmental, social and governance (ESG) issues?

|                                  | Engagement policy or other documents | Do they address E, S or G    |
|----------------------------------|--------------------------------------|------------------------------|
| <b>Asset class</b>               | Please select "Yes" or "No"          | Please select all that apply |
| Fixed income - corporate issuers | No                                   |                              |



**Q 38 Who engages with listed equity or fixed income issuers on behalf of your (or your client's) organisation? Please rank the importance of the different groups listed below based on the engagements undertaken by that group.**

Please note that subsequent questions will be asked specifically on the groups that you list here. Only the activities of the most important will be scored (except for question 39 where all will be scored).

Please select from:  
 "Internal staff"  
 "External engagement service provider(s)"  
 "External investment manager(s) "  
 "Other external entity"

Most important: Internal staff

Second most important:

Third most important:

Fourth most important:

If "Other external entity" is selected, please list it here.

**Q 39 In total, how many listed equity and fixed income issuers did your organisation engage with or were engaged with on your organisation's behalf on ESG issues in 2009, by level of engagement?**

Please do not double count. Engagements that are listed in one column should not be repeated in another. Choose to list them where the highest level of effort is being applied.

|   | Internal staff | External engagement service provider(s) | External investment manager(s) | Other external entity |
|---|----------------|---|--------------------------------|-----------------------|
| Extensive engagement                        | 0              |   |                                |                       |
| Moderate engagement                         | 0              |   |                                |                       |
| Basic engagement                            | 150            |   |                                |                       |
| We do not track these engagement activities |                |   |                                |                       |

**Q 40 Approximately what proportion of the engagements with listed equity or fixed income issuers undertaken by your organisation or on your organisation's behalf addressed environmental, social or governance (ESG) issues?**

(+/- 5% rounding is sufficient)

|   | Internal staff | External engagement service provider(s) | External investment manager(s) | Other external entity |
|---|----------------|---|--------------------------------|-----------------------|
| Environmental                               | %              | %                                       | %                              | %                     |
| Social                                      | %              | %                                       | %                              | %                     |
| Governance                                  | %              | %                                       | %                              | %                     |
| We do not track these engagement activities | ✓              |   |                                |                       |

**Q 41 To what extent do you assess and monitor the ESG engagement competency and capabilities of the following groups?**

Please select:  
"Large", "Moderate", "Small" or "Not at all"

Internal staff

Moderate

**Q 42 Given your (or your client's) engagement policy and/or approach to engagement, to what extent do you or do the third parties acting on your behalf, have a process for identifying and prioritising ESG related engagement opportunities?**

Please select:  
"Large", "Moderate", "Small" or "Not at all"

Internal staff

Moderate

**Q 43 To what extent do you or your third party engagement providers or investment managers set ESG engagement objectives and evaluate engagement successes?**

Please select:  
"Large", "Moderate", "Small" or "Not at all"

Internal staff

Small

**Q 44 To what extent do you or your external investment manager integrate the information gained from ESG engagements into the investment decision-making process?**

Please select:  
"Large", "Moderate", "Small" or "Not at all"

Internal staff

Large

External investment manager(s)

Not at all

**Q 46 What percentage of engagements with listed equity and fixed income issuers that ended in 2009 were deemed successful?**

|                    | Internal staff | External engagement service provider(s) | External investment manager(s) | Other external entity |
|--------------------|----------------|---|--------------------------------|-----------------------|
| Engagement success | %              | %                                       | %                              | %                     |

**What measures does your organisation or its external service provider(s) and or external manager use to assess the impact and success of engagement with listed equity and fixed income issuers, and how did you perform in 2009 based on those measures?**

**Q 51 Please add any overall comments and clarifications related to Principle 2 here. Please also describe any significant activities relating to Principle 2 not already captured by your answers above.**

### Principle 3 - We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 3 is about ensuring that information related to ESG issues is disclosed by companies and other entities in your organisation's investment universe. It is closely related to your activities on Principle 1 and Principle 2.

This section lists questions regarding:

- Who seeks ESG disclosure information for your organisation;
- The level of detail and content that is sought;
- The information you may be seeking regarding norms, standards, codes of conduct or international initiatives related to R/ESG.

While completing this section you are free to move to other sections of the survey without losing work you have already done.

#### Q 52 Please provide a description of your organisation's approach to this Principle. For example, how does your organisation seek appropriate disclosure on ESG issues by the entities in which it invests?

**Note that this text - in addition to being part of the full survey - will also be part of the *Executive Summary* of the survey. The *Executive Summary* is a separate document that will collate the text you provide for each of the introductory sections of the survey (GPS and the six Principles).**

The amount of our investment in specific bonds depends on the rating achieved under the classification system which we developed with our external service provider, the rating agency Sustainalytics. They seek for appropriate disclosure on ESG issues by the entities in which we invest in our order, because those information are essential for the rating process. Sustainalytics of course inquires about non-disclosed but relevant data and brings pressure to bear on concerned entities. If those entities don't disclose even after being forced, they will be confronted with minus points in their ratings. All Investment entity ratings are updated monthly. In analysing those who have a relatively poor rating, we are often confronted by a lack of transparency on ESG issues. Our estimates are regularly confirmed in consultation with Sustainalytics.

Our approach to achieving appropriate disclosure on ESG issues is to address the subject directly; in correspondence and in face-to-face meetings, we repeatedly emphasise the importance of transparency on ESG issues for our investment decisions. We have contacted all issuers of fixed income corporates in our liquidity portfolio, and distributed KfW's sustainability report to them (roughly 150 issuers) and requested their sustainability report in return.

We regularly stress the importance of this issue, and explain the consequences of inadequate transparency or unsatisfactory ESG behaviours. The entities in which KfW invests only maintain their investment limit by preserving a high sustainability rating, and adequate disclosure on ESG issues is necessary to avoid limit reductions. This year's plan is to get into direct dialogue with some of those entities with rather poor sustainability ratings. In these discussions we will point out the importance of ESG issues overall, and their particular significance for the amount of KfW investments.

#### Q 53 Who asked for and/or collected from your organisation's investee companies (or other investment entities) information about their ESG policies, practices or performance in 2009?

Please select all that apply

Internal staff



External investment manager(s)

External engagement service provider(s)

External research providers



Brokers / dealers

Other - please specify:

None of the above: Investee companies, or other investment entities, were not asked to provide information about their ESG policies, practices or performance in 2009 (please specify below why not)

**If investee companies were not asked, please specify why.**

**Q 54 To what extent did you or your external agent(s) have a dialogue with companies (or other investment entities) regarding the production, by asset class, of standardised and/or systematic reporting about their ESG policies, practices or performance in 2009?**

Please select:  
"Large", "Moderate", "Small" or "Not at all"

| Asset class  |       |
|--|-------|
| Fixed income - sovereign and other non-corporate issuers | Small |
| Fixed income - corporate issuers                         | Small |

**Q 55 In which format or mechanism have you or your third party agents requested reporting on ESG policies, practices or performance?**

Please select all that apply

|  |                                     |
|--|-------------------------------------|
| Integrated with regular financial reports  |                                     |
| Standalone corporate (social) responsibility or sustainability reports                 | <input checked="" type="checkbox"/> |
| Global Reporting Initiative (GRI)  |                                     |
| Carbon Disclosure Project (CDP)  | <input checked="" type="checkbox"/> |
| Global Framework for Climate Risk Disclosure   |                                     |
| Communication on Progress (COP) by the United Nations Global Compact                   |                                     |
| Country-level company form of the Extractive Industries Transparency Initiative (EITI) |                                     |
| Submission of a tailored survey  |                                     |
| Other reporting framework by an industry or association - please specify:              |                                     |
| None of the above  |                                     |

**Q 56 To what extent did you or your third party agents seek information from companies regarding their practices related to norms, standards, codes of conduct or international initiatives/ declarations/ conventions related to ESG issues in 2009?**

Please select:  
"Large", "Moderate", "Small" or "Not at all"

Please select: Moderate

**Q 57 Please add any overall comments and clarifications related to Principle 3 here. Please also describe any significant activities relating to Principle 3 that are not already captured by your answers above.**

## Principle 4 - We will promote acceptance and implementation of the Principles within the investment industry.

Principle 4 is about promoting the acceptance and implementation of the Principles for Responsible Investment (PRI) among your clients, service providers, partners, brokers/dealers and other investment industry players. In addition, it is about working with governments, regulators and international bodies to address and define approaches relating to ESG issues.

While completing this section you are free to move to any of the other sections of the survey without losing work already done.

**Q 58 Please provide a description of your organisation's approach to this Principle. For example, how does your organisation promote the acceptance and implementation of the Principles within the investment industry?**

**Please describe how you support the incorporation of ESG factors in the investment industry via mandates, incentives, Request for Proposals (RfPs), policy discussions etc. Please, indicate how your organisation does this in relation to clients and/or beneficiaries, peers or other entities.**

**Note that this text - in addition to being part of the full survey - will also be part of the *Executive Summary* of the survey. The *Executive Summary* is a separate document that will collate the text you provide for each of the introductory sections of the survey (GPS and the six Principles).**

Currently KfW promotes this Principle through direct dialogue with business partners, during face-to-face discussions and through correspondence. In meetings with business partners our staff usually make reference to our signing of the PRI. As mentioned in Question 26, last year KfW surveyed 19 business partners on ESG and PRI topics. We wanted to know why some banks had not signed up to the PRI while their asset management subsidiary had done so, indicating that the required knowledge existed within the organisation. One of the financial institutions approached stated that they 'intend to consider signing up to the PRI!' Another engagement activity addressed all the fixed income corporates in our liquidity portfolio: we distributed KfW's sustainability report to roughly 150 issuers and requested their sustainability report in return. Furthermore, our staff participated in several conferences during 2009, including the German "Forum für Nachhaltige Geldanlage" (FNG); others gave lectures on KfW's approach to sustainability, for example at the Korean Development Bank. In addition, Dr Guenther Braeunig, a member of our Board, was interviewed by the German publication "Boersen-Zeitung" in December 2009 about KfW's signing of the PRI and the implementation of Principle 1 in our liquidity portfolio. During that interview, Dr Braeunig emphasised the significance of bilateral dialogues with issuers on ESG matters, and he also pointed out that the PRI are regrettably not as popular in Germany as in other European countries.

**Q 59 Did you include RI/ESG considerations when working with service providers and/or external investment managers in 2009 (where applicable)?**

**Specifically when:**

- searching for service providers or external managers;**
- drafting contractual agreements;**
- structuring incentive schemes.**

|   | a. Searches   | b. Contracts | c. Incentives | We do not work with this type of provider |
|---|---|--------------|---------------|---|
| <b>Service providers or external managers</b> | If you work with this type of service provider, please select "Yes, for all", "Yes, for some" or "No" |              |               |   |
| Brokers / dealers                             | No  | No           | No            |   |
| External engagement service provider          |   |              |               | ✓   |
| Investment consultant                         |   |              |               | ✓   |
| Investment research provider                  |   |              |               | ✓   |
| Proxy voting service provider                 |   |              |               | ✓   |

External investment  
manager

No

No

No

Other - please specify:

**Q 60 To what extent did you encourage peer organisations and/or your institutional clients to consider RI/ESG issues in 2009?**

Please select:  
"Large", "Moderate", "Small" or "Not at all"

Please select: Moderate

**Q 61 Does your broker evaluation process (which determines how you allocate commissions to brokers) include an ESG component, and/or do you have a budget to pay for broker research on ESG issues?**

Please select:  
"Yes" or "No"

Please select: No

**Q 62 To what extent do you identify ESG issues and suggest them to brokers or other investment research providers for research?**

Please select:  
"Large", "Moderate", "Small" or "Not at all"

Please select: Small

**Q 63 To what extent did you engage in dialogue, lobbying or initiatives pertaining to government policy and/or industry regulations related to RI/ESG issues in 2009?**

Please select:  
"Large", "Moderate", "Small" or "Not at all"

Please select: Moderate

**Q 64 Please add any overall comments and clarifications related to Principle 4 here. Please also describe any significant activities relating to Principle 4 not already captured by your answers above.**

## Principle 5 - We will work together to enhance our effectiveness in implementing the Principles.

Principle 5 is about collaborating with others in your implementation of responsible investment. The questions in this section are designed to capture the many ways in which signatories collaborate (for example by using the PRI Clearinghouse), and thus may overlap with areas discussed previously in the survey. However, the focus here is only those activities that involve working with others to implement the Principles.

While completing this section you are free to move to any of the other sections of the survey without losing work already done.

**Q 65 Please provide a description of your organisation's approach to this Principle. For example, how does your organisation work with other parties to enhance its implementation of the Principles?**

**Note that this text - in addition to being part of the full survey - will also be part of the *Executive Summary* of the survey. The *Executive Summary* is a separate document that will collate the text you provide for each of the introductory sections of the survey (GPS and the six Principles).**

In 2009 our main collaboration was with Sustainalytics, in our drive to improve issuer sustainability ratings. During 2010 we intend to collaborate with other German banks on PRI issues.

**Q 66 To what extent did you collaborate with other investors in regard to the Principles, and what Principle did you collaborate most on?**

| Extent of Collaboration  | Principle you collaborated most in          |
|--|---|
| Please select:<br>"Large", "Moderate", "Small" or "Not at all" | Please select:<br>Principle 1, 2, 3, 4 or 6 |
| Small  | Principle 1                                 |

**Q 67 Did you log in to the PRI Engagement Clearinghouse in 2009 and if so, how did you use it?**

| Logged in? | If Yes, please select all that apply |
|------------|--------------------------------------|
| No         |                                      |

**Q 68 Did your organisation participate in any R/ESG-issue related associations?**

Among those you did participate in, please select:

- the first, second and third most important to your organisation, and
- for the three most important, to what extent your organisation participated.

For those not listed, please use the 'Other' field.

| Associations  | Please select all that apply | Please select only one "Most important", one "Second most important" and one "Third most important" | Only for these three most important, please select to what extent: "Large", "Moderate" or "Small" |
|---|------------------------------|---|---|
| Carbon Disclosure Project (CDP)                                   | ✓                            | Most important  | Small   |
| United Nations Environmental Program Finance Initiative (UNEP FI) | ✓                            | Second most important   | Small   |
| Other (1) - please specify:<br>Transparency International         | ✓                            | Third most important  | Small   |

**Q 69 Please add any overall comments and clarifications related to Principle 5 here. Please also describe any significant activities relating to Principle 5 not already captured by your answers above.**

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## Principle 6 - We will each report on our activities and progress towards implementing the Principles.

Principle 6 is about your organisation's reporting of responsible investment activities (as opposed to Principle 3 which relates to the reporting of your investees or potential investees). The questions in this section focus on how you disclose your activities regarding the implementation of the Principles and where that disclosed information can be found.

While completing this section you are free to move to any of the other sections of the survey without losing work already done.

**Q 70 Please provide a description of your organisation's approach to this Principle. For example, in what ways does your organisation report your implementation of the Principles? Please include any sort of disclosure and transparency practices you have adopted.**

**Note that this text - in addition to being part of the full survey - will also be part of the *Executive Summary* of the survey. The *Executive Summary* is a separate document that will collate the text you provide for each of the introductory sections of the survey (GPS and the six Principles).**

The Internet is clearly a very effective route for the dissemination of information. Hence KfW is creating a new CSR portal in 2010, which will cover our PRI activities and the sustainability element of all KfW's fields of activity. Meanwhile the current sustainability report is available on our homepage.

PRI activities have featured on our homepage since 2009. Our investment approach, which embodies Principle 1, is described in detail, along with the steps necessary to implement the investment process; e.g. converting sustainability principles into measurable criteria. Another example of reporting on our actions and progress in implementing the Principles was a lecture on KfW's approach to sustainability given to representatives of the Korean Development Bank. This was not confined to a theoretical presentation; the changes necessary to achieve a sustainable portfolio - new limit structures, breach of limit consequences and reductions in limit amounts - were all covered in detail. Furthermore, Dr Guenther Braeunig, a member of our Board, was interviewed by the German publication 'Boersen-Zeitung' in December 2009 regarding KfW's signing of the PRI and the implementation of Principle 1 in the liquidity portfolio.

Also in 2009 KfW published a new sustainability report, recording all the activities undertaken by KfW in the sustainability field.

KfW's sustainability performance has already been assessed by the renowned independent SRI rating agencies Sustainalytics and Oekom Research. Oekom classified KfW among the world's best companies in our industry (status: 'Prime'). Sustainalytics ranked KfW third among all bond issuers assessed, and as the best German institution. KfW provided Oekom Research and Sustainalytics with all the information necessary for the proper evaluation of our sustainability activities.

**Q 71 To what extent did you disclose, either to clients/beneficiaries or publicly, your policy and/or approach to incorporating ESG issues into investment analysis and decision-making processes in 2009?**

Please select:

"Large", "Moderate", "Small" or "Not at all"

Moderate

**If you disclosed, please indicate how this disclosure can be obtained - a web address (URL) would be sufficient. If answering *not at all*, please explain why not.**

*Yes, you did disclose:  
how can it be obtained*

[http://www.kfw.de/EN\\_Home/Investor\\_Relations/Socially\\_responsible\\_investment/Sustainability\\_strategy/Sustainable\\_investment\\_process/index.jsp](http://www.kfw.de/EN_Home/Investor_Relations/Socially_responsible_investment/Sustainability_strategy/Sustainable_investment_process/index.jsp)

[http://www.kfw.de/EN\\_Home/Investor\\_Relations/Socially\\_responsible\\_investment/Publications.jsp](http://www.kfw.de/EN_Home/Investor_Relations/Socially_responsible_investment/Publications.jsp)

*Did not disclose publicly:  
please explain why not*

**Q 74 Did you disclose your non-proxy voting active ownership and engagement policies or other documents that direct these activities?**

Please select one: No

**If 'Yes, disclosed publicly', please indicate how it can be obtained - a URL would be sufficient. If not, please explain why not.**

*Yes, disclosed publicly:  
how can it be obtained*

*Did not disclose publicly:  
please explain why not*

As KfW has developed an engagement strategy just in 2009 and started engagement with an inquiry dealing ESG- and PRI-topics to 19 business partners, we didn't disclose our engagement activity yet. It will come this year as soon as possible in our new CSR-Portal.

**Q 75 To what extent did you disclose (either to clients/beneficiaries or publicly) your non-proxy voting RI/ESG issue-related active ownership and engagement activities, results and progress in 2009?**

Please select:  
"Large", "Moderate", "Small" or "Not at all"

Please select: Not at all

**If you disclosed, please indicate how this disclosure can be obtained - a web address (URL) would be sufficient. If answering *not at all*, please explain why not.**

*Yes, you did disclose:  
how can it be obtained*

*Did not disclose publicly:  
please explain why not* As KfW has developed an engagement strategy just in 2009 and started engagement with an inquiry dealing ESG- and PRI-topics to 19 business partners, we didn't disclose our engagement activity yet. It will come this year as soon as possible in our new CSR-Portal.

**Q 76 Did you disclose (either to clients/beneficiaries or publicly) RI/ESG activities, results and progress related to Principle 3, Principle 4 or Principle 5 in 2009?**

Please select "Yes, disclosed publicly", "Yes - disclosed to clients or beneficiaries only" or "Not at all"

**Principle 3** Yes - disclosed to clients or beneficiaries only

**If 'Yes, disclosed publicly', please indicate how it can be obtained - a URL would be sufficient. If not, please explain why not.**

*Yes, disclosed publicly:  
how can it be obtained*

*Did not disclose publicly:  
please explain why not* We distributed KfW's sustainability report to roughly 150 issuers with a covering letter which emphasised the significance that KfW attaches to ESG considerations in its investment decisions.

Please select "Yes, disclosed publicly", "Yes - disclosed to clients or beneficiaries only" or "Not at all"

**Principle 4** Yes - disclosed publicly

**If 'Yes, disclosed publicly', please indicate how it can be obtained - a URL would be sufficient. If not, please explain why not.**

*Yes, disclosed publicly:  
how can it be obtained* Dr Guenther Braeunig, a member of our Board, was interviewed by the German publication 'Boersen-Zeitung' in December 2009 regarding KfW's signature of the PRI and the implementation of Principle 1 in our liquidity portfolio. In that interview, under the headline 'how to push issuers to greater sustainability', Dr Braeunig stressed the significance of bilateral dialogues with issuers on ESG matters. He also pointed out that the PRI are regrettably not as popular in Germany as in other European countries.

*Did not disclose publicly:  
please explain why not*

Please select "Yes, disclosed publicly", "Yes - disclosed to clients or beneficiaries only" or "Not at all"

**Principle 5** No

**If 'Yes, disclosed publicly', please indicate how it can be obtained - a URL would be sufficient. If not, please explain why not.**

*Yes, disclosed publicly:  
how can it be obtained*

*Did not disclose publicly:  
please explain why not* As KfW has developed an engagement strategy just in 2009 and started engagement with an inquiry dealing ESG- and PRI-topics to 19 business partners, we didn't disclose our engagement activity yet. It will come this year as soon as possible in our new CSR-Portal.

**Q 77 Please add any overall comments and clarifications related to Principle 6 here. Please also describe any significant activities relating to Principle 6 not already captured by your answers above.**

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