

# Sustainability Policy



Flossbach von Storch

“Sustainability is a characteristic of long-term oriented investors and therefore of a long-term oriented investment strategy. A company can only achieve lasting success if it serves its customers well, motivates its employees, treats its business partners fairly, makes adequate investments, pays taxes, and avoids harming the environment. That is why we do not just look at company business models and balance sheets, but also at the people behind the company.”

**Dr Bert Flossbach**

Co-Founder and Board Member of Flossbach von Storch AG

*Signatory of:*



## PRELIMINARY REMARKS

The Sustainability Policy of the Flossbach von Storch Group (Flossbach von Storch AG, Flossbach von Storch Invest S.A. (FvS Invest S.A.) and the other subsidiaries, also “FvS Group” or “Flossbach von Storch”) describes how aspects of sustainability relating to environmental, social and corporate governance, so-called ESG factors (Environment, Social, Governance), are taken into account in the management of the investment funds managed by FvS Invest S.A. (the “Funds”) and in the financial portfolio management of Flossbach von Storch AG and are fully integrated into the investment policy.

The Sustainability Policy can be found on the FvS Invest S.A. ([www.fvsinvest.lu](http://www.fvsinvest.lu)) website and on the Flossbach von Storch AG ([www.flossbachvonstorch.de/en/](http://www.flossbachvonstorch.de/en/)) website.



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## 1 MISSION STATEMENT

Sustainability has always been a characteristic and fundamental component of the Flossbach von Storch investment philosophy, which has been designed for long-term investment. Flossbach von Storch uses attributes, such as long-term, stable, and future-oriented to define sustainability. They describe a comprehensive understanding of sustainability which focuses on the well-being of all interested parties. After all, a company can only achieve lasting success if it serves its customers well, motivates its employees, treats its business partners fairly, makes adequate investments, pays taxes, and avoids harming the environment. Ecology and social responsibility are the prerequisites for long-term economic success. You can't have one without the other.

As a trustee of its clients' assets, Flossbach von Storch maintains a responsible approach when dealing with its associated rights and obligations. This approach is in line with the principles of an active (not activist) investor who uses appropriate ways to point to deficiencies within the companies with which it is involved and acts accordingly.

## 2 SUSTAINABILITY STRATEGY OF THE FLOSSBACH VON STORCH GROUP

Flossbach von Storch integrates sustainability factors comprehensively into its multi-stage investment process. Sustainability factors are understood to include aspects relating to environmental, social and employee concerns, respect for human rights and the fight against corruption and bribery.

### 2.1 Integrating ESG

As part of a specific ESG analysis, sustainability factors are reviewed for their potential opportunities and risks. An assessment is made to the best of our knowledge as to whether or not a company stands out negatively in terms of its environmental and social activities and the way it deals with them. Each of the factors is considered from the perspective of a long-term investor to ensure that none of the aspects have a negative impact on the long-term success of an investment.

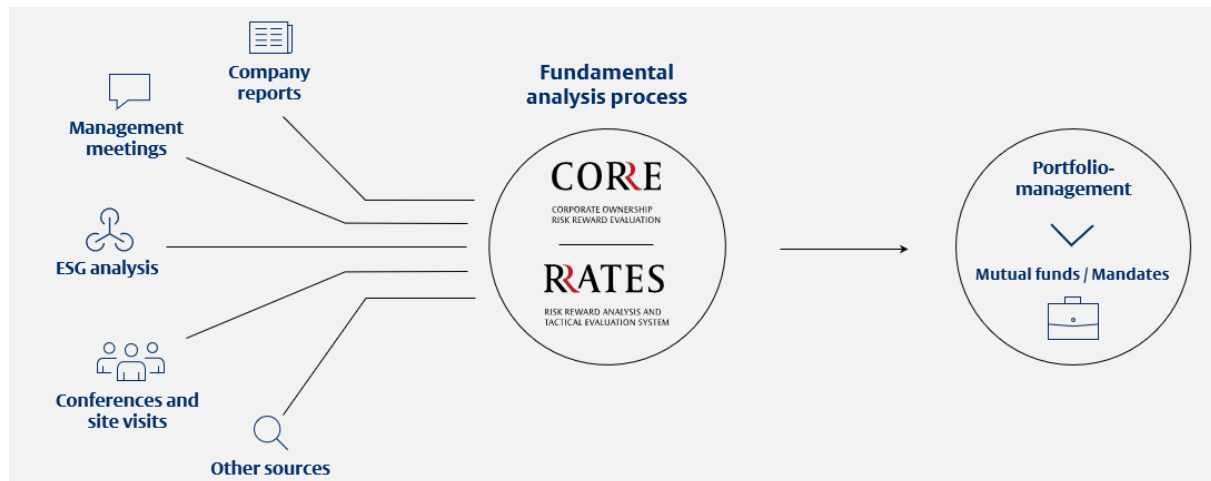
The findings of the ESG analysis are taken into account in our analysis processes: CORE (for determining the risk-reward profile of equities) and RATES (for determining the risk-reward profile of bonds). Only if there are no serious sustainability conflicts that might jeopardise the future potential of a company or issuer is an investment idea included in the so-called Focus List (for equities) or Guarantor List (for bonds) and thus becomes a possible investment. The portfolio managers can only invest in securities that are on the internal Focus or Guarantor Lists. This principle ensures that invested securities have gone through the in-house analysis process and comply with the common understanding of quality.

As part of the multi-stage analysis process, special attention is paid to good corporate governance, which is responsible for the sustainable development of the company. This increases a company's long-term prospects of success and can only be achieved by taking ecological as well as social factors into account. Therefore, investments are made in companies that apply good corporate governance practices.



The team of analysts draws on external data sources. These include company reports, ESG research data from third parties (MSCI and Bloomberg) and a variety of other sources. They can provide useful indications for the assessment of sustainability factors, but do not replace our own analysis.

Process outline of our in-house company analysis:



## Sustainability risks

Sustainability risks form an integral part of our analysis process. We define sustainability risks as environmental, social, or corporate governance events or conditions that, if they occur, may have an actual or potential material adverse effect on the value of an investment. Sustainability risks can have a considerable impact on other types of risk, including, for example, general price risk, operational risk, liquidity risk, currency risk, etc., and are a contributing factor affecting the significance of these types of risk.

More information about sustainability risks can be found on the [www.fvsinvest.lu](http://www.fvsinvest.lu) website (or on the respective country-specific Flossbach von Storch Group website) and at [www.flossbachvonstorch.de/en/](http://www.flossbachvonstorch.de/en/).

## Most important principal adverse sustainability impacts

Sustainability indicators provide information on the adverse environmental, social and employee impacts of a company's business activities and the extent to which human rights are respected and corruption and bribery are prevented.

In order to be able to identify these adverse impacts at an early stage, we review and evaluate how our investments deal with their environmental and social footprint. In doing so, we take into account the so-called environmental and social mandatory indicators as well as an additional climate-related indicator and two additional social indicators of Regulation (EU) 2019/2088 in our in-house analysis process.

Further information on how to deal with the principal adverse sustainability impacts is available on the [www.fvsinvest.lu](http://www.fvsinvest.lu) website (or the respective country-specific Flossbach von Storch Group websites) and at [www.flossbachvonstorch.de/en/](http://www.flossbachvonstorch.de/en/).



By taking a fundamental approach when integrating ESG and by taking sustainability risks into account, Flossbach von Storch AG fulfils its fiduciary duties to the best of its ability, so as to be able to adequately classify the potential risks (and opportunities) of investment decisions.

The FvS Group attaches importance to ensuring that the remuneration policy takes into account, among other things, the long-term interests of investors and is consistent with the integration of sustainability risks into the investment decision-making process.

## **2.2 Active owner**

The role of trustee does not end with the selection of the right investment. As a long-term investor, Flossbach von Storch also considers itself obligated to actively represent the interests of its clients when dealing with portfolio companies (active ownership).

### **Engagement**

The interests of shareholders are taken into account as part of an active-ownership process and follow an established engagement policy. This involves constantly observing and analysing the movements within the portfolio investments. Whenever critical issues arise which may have a long-term impact on business performance, they are discussed with management.

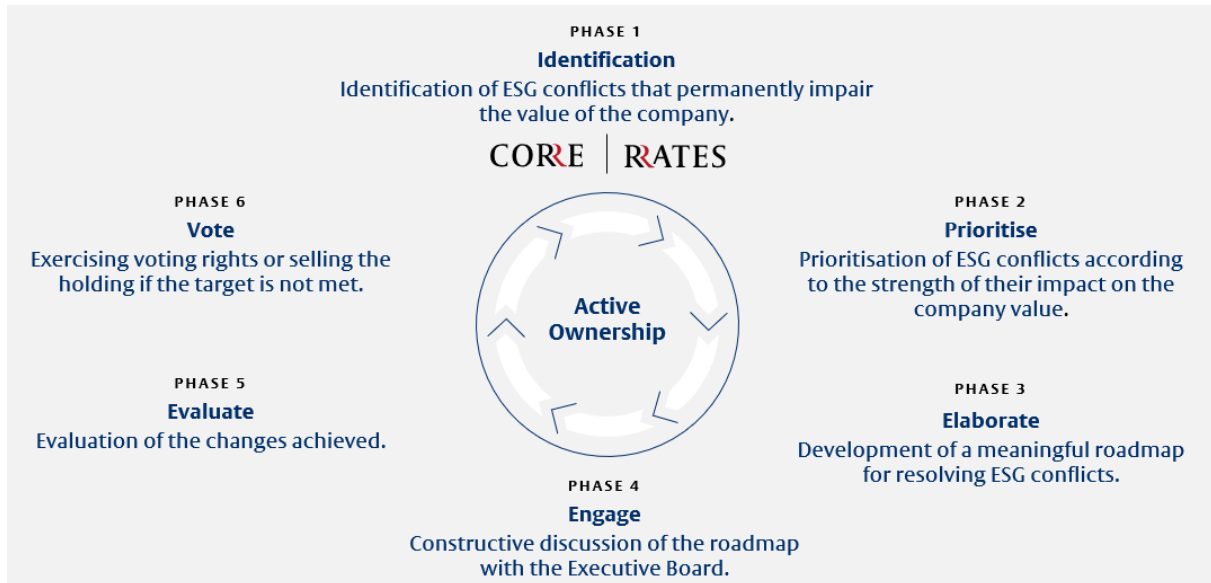
Flossbach von Storch considers itself to be a constructive sparring partner (where possible) or a corrective function (where necessary), that makes meaningful suggestions and helps management with their implementation. The analysts focus on a limited number of companies, giving them both the opportunity and enough time to guarantee progress and ensure that mutually defined objectives are met. If the management does not sufficiently take the necessary steps to achieve a sustainable business model, the fund management will use its voting rights in conjunction with the in-house investment funds or it will reduce or dispose of the holding.

### **Exercise of voting rights for the in-house investment funds**

Flossbach von Storch takes the responsibility of exercising voting rights for its investors seriously and casts votes for in-house investment funds in accordance with set criteria. As a long-term investor, Flossbach von Storch supports all measures in the interests of the investors that increase the value of a company in the long term, and it votes against, or has votes cast against, any measures that go against this objective.



A cyclical active-ownership process forms an integral component of the investment process:



In relation to active shareholder engagement, reference is made to the guidelines for exercising voting rights and for FvS Group engagement, which can be found on the [www.fvsinvest.lu](http://www.fvsinvest.lu) website (or on the respective country-specific Flossbach von Storch Group websites) and at [www.flossbachvonstorch.de/en/](http://www.flossbachvonstorch.de/en/).

## 2.3 Responsibilities

Flossbach von Storch does not apply rigid ESG filters but decides on a case-by-case basis using its proprietary analysis process whether a company stands out negatively in terms of its ESG activities or not. The basis for making a decision in this regard is formed during internal meetings, put in writing and subjected to in-depth critical scrutiny to ensure that the line of argument is rigorous, complete and accurate. This teamwork-based approach, which is anchored in the principles of the Flossbach von Storch Pentagram, is based on a mutual understanding of the quality of an investment.

The integration of ESG is firmly anchored in the investment process and is monitored by the Chief Investment Officer (CIO) and by the Head of Equity Research of Flossbach von Storch AG. ESG integration is implemented, discussions are entered into with the companies and voting rights for the in-house investment funds are exercised centrally by the responsible portfolio managers and analysts. In the analyst team, there are colleagues who focus on the topic of sustainability and thus make an important contribution to assessing the quality of an investment.





## 2.4 Group-wide minimum exclusion criteria

The Flossbach von Storch Group undertakes to exclude investments in companies with certain business models. Accordingly, investments in companies with the following turnover thresholds are excluded:

- > 0 % outlawed weapons or controversial weapons (see below)
- > 10 % production and distribution of armaments
- > 5 % tobacco production
- > 30 % production and distribution of thermal coal

Exclusion also applies to companies with serious violations (without a positive outlook) of the principles of the UN Global Compact (see below) and to state issuers that are considered “not free” according to the Freedom House Index.

### Outlawed or Controversial Weapons

The FvS Group is committed to supporting and complying with conventions aimed at banning the production and trade of controversial weapons (CW). Investments in companies related to the manufacture or sale of controversial weapons, as defined in the internal Controversial Weapons Policy, are excluded throughout the Flossbach von Storch Group.

According to prevailing opinion, controversial weapons are weapons systems which are indiscriminate, cause disproportionate suffering, pose a danger to the civilian population long after a conflict has been resolved and consequently are outlawed by the international community. Multiple international conventions, European legislations and national statutory provisions of various countries outlaw and ban the development, manufacture, purchase, stockpiling, transfer, and use of so-called controversial weapons.

The internal guideline on controversial weapons is based on the following, non-exhaustive list of relevant statutory and regulatory agreements:

- the Convention on Cluster Munitions, which was signed in 2008 and came into force in 2010 (the “Oslo Convention”),
- the Convention on the Prohibition of Anti-Personnel Mines, which was signed in 1997 and came into force in 1999 (the “Ottawa Treaty”),
- the 1925 Geneva Protocol and the Biological Weapons Convention, which was signed in 1972 and came into force in 1975, and prohibits the development, manufacture, and stockpiling of biological weapons,
- the Chemical Weapons Convention, which was signed in 1993 and came into force in 1997, and prohibits the development, manufacture, and stockpiling of chemical weapons,
- the Treaty on the Non-Proliferation of Nuclear Weapons, which was signed in 1968 and came into force in 1970, including the Additional Protocol of 1998 and the Treaty on the Prohibition of Nuclear Weapons of 2017.



Controversial weapons include the following types of weapons (not an exhaustive list):

- cluster munitions
- anti-personnel mines / land mines
- chemical, biological, radiological, and nuclear weapons (CBRN)
- laser weapons,
- enriched uranium,
- incendiary bombs (white phosphorus),
- weapons of mass destruction (WMD)

Flossbach von Storch avoids entering into or maintaining business relations of any kind with companies that have direct links to dealings with controversial weapons (CW). No investments are made in companies that profit from these kinds of controversial weapons systems. This ban involves the entire supply chain, from production to sales to associated services.

#### **Principles United Nations Global Compact (UN Global Compact or UNGC Principles)**

The UN Global Compact or other equivalent organisations do not keep an official record of whether and to what extent a company has violated the principles. Companies can sign the principles of the UNGC and still commit violations.

In order for the FvS Group to comply with the mandatory exclusion for serious violations of the UNGC, an in-house analysis is carried out on a case-by-case basis to determine whether or not a company has violated the principles of the UNGC with regard to sustainability controversies that have arisen.

In addition, the analyses and assessments of the MSCI ESG research on UNGC violations are evaluated. They can provide useful information on controversies and critical ad-hoc events, but they never replace our own analysis.

If serious violations are identified in a company, the allegations are analysed further and, depending on the given situation, measures are initiated within the framework of a dedicated active ownership process (see 2.2 Active Owner). The focus is on the company's efforts to improve the situation. If there is no prospect of an improvement of the circumstances leading to the serious violation, a divestment should generally take place.



## 2.5 Special features

### Flossbach von Storch Foundation Funds

The Foundation sub-funds reflect a broader consensus of values in a non-profit sense. The investment policy defines further categories of companies in which investments may not be made. Further details about the investment policy can be found in the relevant sales literature on the [www.fvsinvest.lu](http://www.fvsinvest.lu) websites (or the respective country-specific Flossbach von Storch Group websites) and at [www.flossbachvonstorch.de/en/](http://www.flossbachvonstorch.de/en/).

### Flossbach von Storch IV-Global Flexible and Global Flexible Bond

The investment policy of the Flossbach von Storch IV - Global Flexible and Global Flexible Bond defines further categories of companies in which investments may not be made. Further details about the investment policy can be found in the relevant sales literature on the [www.fvsinvest.lu](http://www.fvsinvest.lu) websites (and/or the respective country-specific Flossbach von Storch Group websites) and at [www.flossbachvonstorch.de/en/](http://www.flossbachvonstorch.de/en/).

### Flossbach von Storch investment funds

Special features of specific investment funds are published on the respective country-specific websites and [www.fvsinvest.lu](http://www.fvsinvest.lu) of the Flossbach von Storch Group.

### Mandates and special funds managed by Flossbach von Storch

The composition of the special funds and mandates can also be adapted to the clients' sustainability criteria. This enables ethical standards to be customised. Additional negative lists formulated during this process are mainly based on the exclusion of certain securities, sectors or even countries. The reporting or disclosure of specific characteristics, such as the CO<sub>2</sub> footprint, can also be provided at a mandate level.

## 3 PUBLIC COMMITMENT

Flossbach von Storch supports the increasing significance of sustainability in the finance sector. In order to emphasise the importance of the topic, Flossbach von Storch follows developments in a constructively critical manner and engages in intensive discourse, not only with clients, but also with politicians, initiatives and, among other things, through press releases, interviews and its own publications. After all, transparency is a key element for reaching a mutual consensus concerning the central issue: what is and what is not a sustainable investment?



### 3.1 Disclosure requirements

In the context of its engagement, Flossbach von Storch publishes an annual Active Ownership Report with excerpts from its voting process and engagement activities for the previous calendar year. The current Active Ownership Report is published on the [www.fvsinvest.lu](http://www.fvsinvest.lu) website (or the respective country-specific Flossbach von Storch Group websites) and at [www.flossbachvonstorch.de/en/](http://www.flossbachvonstorch.de/en/).

The Flossbach von Storch Group fulfils its sustainability-based disclosure requirement pursuant to the Disclosure Regulation (EU) 2019/2088 (SFDR). Disclosures pursuant to the SFDR are published on the [www.fvsinvest.lu](http://www.fvsinvest.lu) website (or on the respective country-specific Flossbach von Storch Group website and at [www.flossbachvonstorch.de/en/](http://www.flossbachvonstorch.de/en/)).

### 3.2 Principles for Responsible Investment (PRI)

In January 2019, Flossbach von Storch AG signed the United Nations Principles for Responsible Investment (UN PRI) on behalf of the Flossbach von Storch Group. This places an obligation on the Flossbach von Storch Group to take ESG factors into account when making investment decisions and to integrate active engagement and the exercising of voting rights as a shareholder.

## 4 REVIEWING THE SUSTAINABILITY POLICY

This Sustainability Policy is subject to regular review and will be updated as necessary depending on the development of business activity and the adjustment of strategies for implementing sustainability criteria and risks. The current version of the Sustainability Policy is published on the FvS Invest S.A. [www.fvsinvest.lu](http://www.fvsinvest.lu) website (or the respect country-specific Flossbach von Storch Group website) and on the Flossbach von Storch AG <https://www.flossbachvonstorch.de/en/> website.

