

Guidelines on exercising voting rights and engagement



Flossbach von Storch

PRELIMINARY REMARKS

The guidelines for exercising voting rights serve to support the analysis of proposals for resolutions at general meetings. If one of the following requirements is not met, the rejection of the proposed resolution should be discussed as part of the vote.

The following requirements should also be taken into account when selecting the investments and should influence the investment strategy accordingly.

In the same way, the analysis for determining the voting behaviour and the engagement of the shareholders should shape the investment strategy accordingly.

1 PRINCIPLES

1.1 Independence

Flossbach von Storch Invest S.A. ("FvS Invest S.A.") is obliged to exercise the voting rights and engagement duties of an active owner for the corporate stocks held in its funds independently and exclusively in the interests of the unitholders.

FvS Invest S.A. takes shareholder interests into account as part of a stringent active ownership process in the sense of the United Nations-supported principles for responsible investment (UN PRI), which defines the conception and implementation of the engagement policy. As part of this process, the developments in portfolio investments are observed and analyzed. Potential problems that affect their business development can thus be identified at an early stage - including serious ESG conflicts. Critical issues are discussed with management.

FvS Invest S.A. takes its responsibility for exercising voting rights for its investors seriously and votes in accordance with defined criteria. Any conflicts of interest are identified by Flossbach von Storch and, if necessary, weighed up to safeguard the interests of the investors in the best possible way when exercising voting rights. If the interests of different investment funds deviate from each other, this will be reflected in the voting behaviour.

Insofar as FvS Invest S.A. has permanently authorised a proxy to exercise the voting rights, it shall guide and control its representative's voting behaviour through the application of these guidelines and the voting requirements or, in special cases, through specific instructions.

Discussions with other investors may take place, but these should only be held as an exchange of views with regard to publicly available information. As active investors in the target companies, we attach the greatest importance to the implementation of the principle of sustainable corporate governance and other ESG principles.

We have signed the United Nations-supported principles for responsible investment (UN PRI). They oblige all members to incorporate environmental and social issues as well as questions of good corporate governance in their investment process (environmental, social, governance, or ESG) and as an active investor to promote them in target companies.



FvS Invest S.A. or a proxy designated by it shall not conduct any coordinated actions in any way. In this respect, discussions with investors must not go beyond the above framework and must comply with the framework rules as specified herein.

Against this backdrop, representatives of Flossbach von Storch must clearly stress the aforementioned point with respect to the counterparty for any discussions with other investors that may take place and must also communicate the following rules in this context:

- Discussions shall not include any agreements of any kind concerning the exercise of voting rights.
- Discussions will in no way affect future transaction behaviour.
- Discussions may only relate to public information in general, and all other content must be omitted.

If a discussion partner does not comply with these framework rules, the discussions must be terminated without delay. Any incident must be reported to Compliance without delay.

Notwithstanding the above, Flossbach von Storch is engaged in a public debate to support and strengthen ESG issues. For this purpose, public debates or communication can take place via, among other things, press releases or interviews with parties including the management board of target companies, institutional investors, interest groups, industry associations, politicians and the like. In this case, independence in exercising the voting rights according to the aforementioned prerequisites should always be guaranteed.

1.2 Materiality

As an active shareholder, voting rights should generally be exercised whenever more than 0.5% of the share capital of a target company is held by FvS Invest S.A. and/or by the funds it manages. FvS Invest S.A. may also exercise a vote below this investment threshold as and when required. In particular, this may be the case if there are critical facts or significant items for the decision on the agenda that could have a lasting impact on the intrinsic value of the investment.

In addition, FvS Invest S.A. will undertake a cost-benefit analysis of exercising voting rights below the 0.5% investment threshold. The expenses associated with exercising voting rights must be in proportion and financially acceptable. For example, if the exercise of voting rights is associated with disproportionately large expenses or with disproportionate costs, FvS Invest S.A. shall refrain from exercising these voting rights.

1.3 Approach

As a long-term investor, Flossbach von Storch fundamentally supports any measures in the interests of the investors that increase the value of a company in the long term and in a sustainable manner, and will vote against or allow votes against those that oppose this objective. The basis of our analyses is a detailed questionnaire which Flossbach von Storch uses to try to understand the companies and the relevant value drivers and risks in the best possible way.

The independent analysts focus on a limited number of companies, which gives them both the opportunity and the time to ensure that they track compliance and progress on ESG matters. Every commitment that Flossbach von Storch takes is subjected to a cost-benefit assessment in advance. Acute and far-reaching issues are discussed with companies more intensively than less critical factors



that need to be optimized in the long term. In addition, the portfolio investments, in which Flossbach von Storch holds higher shares, are subject to a more intensive exchange.

FvS Invest S.A. has created the following criteria in the exercise of voting rights which must be taken into account when attending an annual or general meeting. Voting rights are generally exercised by the portfolio manager. The starting point for the decisions made by the respective portfolio manager(s) are the recommendations that the analyst assigned to a portfolio or issuer prepares in consultation with the portfolio manager in the lead-up to a general meeting or vote which are consistent with the investment strategy of the relevant investment fund. These guidelines should serve as a flexible framework for exercising voting rights and enable the making of a unique, transparent and comprehensible individual case decision which is to be documented. Even if the relevance of the guidelines is generally based on the sequence presented below, secondary points may also be important for the decision in individual cases. If multiple portfolios hold relevant voting rights, the portfolio managers of the portfolios in question shall decide on the exercise as a committee based on these FvS Invest S.A. voting guidelines and shall document this accordingly.

The procedure concerning the assertion of any claims for damages (in particular in the event of violations of US capital market rights) is the responsibility of the portfolio manager. The specific facts and economic criteria should serve as a basis for a documented decision on each individual case. An opt-out in relation to a class action will only be chosen if an independent action is pursued, i.e. passive participation in the class action is the rule for any class actions.

2 GUIDELINES FOR EXERCISING VOTING RIGHTS

2.1 Executive Board / Supervisory Board / Board of Directors

2.1.1 Elections

Critical factors in the election of members of the Executive Board, Supervisory Board or Board of Directors (where this is the responsibility of the general meeting):

- No comprehensive presentation of candidates' qualifications with, in particular,
 - Career,
 - Age,
 - Nationality,
 - Date of first appointment,
 - Duration and end of current appointment and
 - Other mandates, stating any stock exchange listing or group affiliation of the relevant companies.

The information should be published on the internet. The agenda should contain a corresponding hyperlink.

- more than
 - three mandates in total for an executive member;
 - five mandates in total for a non-executive member who does not have an executive role in any company or has more than three mandates in total as a supervisory board member occupying an executive role in any company.

Activities as Chairman count double; the position to which the candidate is to be appointed is to be counted; another executive activity in companies outside the Group is excluded; several mandates within a group count as one mandate, but only if they are clearly identified; foreign



mandates are to be taken into account; comparable activities are also considered as mandates, e.g. Board of Directors or non-voluntary advisory board; mandates that are not specified further are automatically counted as full mandates; another main occupational activity is counted.

- In the case of companies with a monistic organisational structure: Personal union between the Chief Executive and the Chairperson.
- Less than half of the shareholder representatives on the Supervisory Board are independent; for example, a member is not to be considered independent in the following cases:
 - they have already been working in this role for more than ten years,
 - they are a representative of a shareholder holding more than ten per cent of the voting rights,
 - they were a member of the Executive Board of the company,
 - they have an additional business relationship with the Executive Board, the Supervisory Board or the company.
- Automatic change of executive members, in particular the CEO and CFO, the chairmanship of the Supervisory Board (*Chairperson of the Board*). A long-term, successful Executive Board member can become a member of the Supervisory Board as long as the member complies with the recommendations of the German Corporate Governance Code, or the recommendations of an equivalent foreign corporate governance code.
- Insufficiently qualified staffing of the committees as a rule mostly with independent members, in particular the Chairperson.
- No independent member of the Supervisory Board has expertise in the areas of accounting or auditing.
- Special rights or delegation rights for certain shareholders
- In the event of re-election:
 - Lack of control of salaries, especially in the case of rising salaries of executive members accompanied by worse company results
 - No disclosure of participation in meetings of the Supervisory Board or committees or participation in less than 75 per cent of the meetings without sufficient justification.

2.1.2 Discharge

Critical factors for the discharge of members of the Executive Board, Supervisory Board or Board of Directors:

- Conflicts of interest and lack of independence
- Deficient risk control and audit procedures
- Non-compliance with statutory provisions, corporate or intra-group guidelines (Compliance)
- Incorrect declaration of compliance
- Pending proceedings (e.g. challenging of the balance sheet, insider trading, corruption or antitrust violations)
- Significant and sustained violations of generally accepted Socially Responsible Investment (SRI) or Environmental Social Governance (ESG) guidelines, including the lack of appointment of an Executive Member to be responsible for ESG issues
- No regular voting (at least every five years) on the remuneration system for the Executive Board or the lack of a vote in the event of changes
- Demonstrable impairment of the interests of minority shareholders
- more than
 - three mandates in total for an executive member;



- five mandates in total for a non-executive member who does not have an executive role in any company or has more than three mandates in total as a supervisory board member occupying an executive role in any company.

Activities as Chairperson count double; the position to which the candidate is to be appointed is to be counted; another executive activity in companies outside the Group is excluded; several mandates within a group count as one mandate, but only if they are clearly identified; foreign mandates are to be taken into account; comparable activities are also considered as mandates, e.g. Board of Directors or non-voluntary advisory board; mandates that are not further specified are automatically counted as full mandates; another main occupational activity is counted.

- In the case of companies with a monistic organisational structure: Personal union between the Chief Executive and the Chairperson.
- No deductible is agreed for financial loss liability insurance of the members of the Supervisory Board.
- There is no regular age limit for members of the Executive Board, Supervisory Board or Board of Directors.
- No remedy or statement of opinion in the case of discharge with less than 75 per cent of the voting rights represented in the annual general meeting in the previous year.
- For an executive member:
 - Persistently poor results relative to the industry;
 - Failure to comply with essential transparency standards (e.g. non-publication of the CVs of executive members)
- For a non-executive member:
 - Lack of exercise of supervisory duty towards executive members;
 - Non-compliance with essential transparency standards (e.g. permanent and current non-publication of CVs of non-executive members on the website with the criteria for presentation of qualification in elections, articles of association, named appointments to the committees);
 - No comprehensive individualised reporting on the presence of members of the Supervisory Board in Supervisory Board and committee meetings

2.1.3 Remuneration

Critical factors for remuneration (and therefore both for voting on the remuneration system and the election and/or discharge) of members of the Executive Board, Supervisory Board or Board of Directors:

- No limits for the total remuneration including variable remuneration components
- Existence of variable remuneration components with a lack of focus on the long-term success of the company and a link to published long-term success factors
- Subsequent adjustment of performance parameters that make it easier to achieve the specified objectives
- The performance parameters for determining variable remuneration are exclusively tied to the share price
- Share option plans, the redemption of which does not extend beyond the contractual term
- The variable remuneration part for virtual share options (phantom shares) is linked to the dividend
- Lack of transparency, e.g.:
 - The remuneration of the Management Board and/or the Supervisory Board is not reported individually
 - Insufficient disclosure of the objective performance parameters of the remuneration
 - Lack of disclosure of share option programmes



- Exercise of discretion granted to a body is not comprehensible to third parties
- No remedy or statement of opinion in the case of consent to the remuneration system for the Executive Board with less than 75 per cent of the voting rights represented in the annual general meeting in the previous year
- For executive members:
 - Rising or inadequately reduced salaries accompanying worse company results
 - Non-performance-related or disproportionate remuneration or severance payments of any kind; missing bonus/malus system for remuneration
 - No disclosure in the form of the sample tables attached as an appendix to the German Corporate Governance Code or sample tables attached to an equivalent foreign corporate governance code
- For non-executive members:
 - The variable component of the remuneration is linked to the dividend.
 - The remuneration is not appropriate relative to comparable companies and is not predominantly fixed.

2.2 Capital measures and redemption of shares

2.2.1 Capital increases

Critical factors for resolutions relating to all capital increases (including approved and contingent capital increases):

- First issue of preference shares.
- Subscription rights not tradable on a stock exchange.
- Lack of justification and information about the company's long-term strategy with regard to capital measures.
- Ordinary capital increases do not serve to clearly increase the company's prospects for income in the long-term.
- The amount of the total reserve capital still available and its percentage share of capital are not specified in the documents for the annual general meeting.

Critical factors for inventory decisions (approved and contingent capital increases):

- The capital increase requested exceeds 40% of the share capital.
- The capital increase requested exceeds 20% of the share capital and in addition, the subscription rights are excluded. All subscription rights exclusions – with the exception of where this is done to avoid fractional shares – take effect. Subscription rights exclusions are generally to be considered cumulatively; inventory resolutions already provided for in the articles of association must be included.

2.2.2 Redemption of shares

Critical factors in the redemption of shares:

- The requesting company is experiencing financial difficulties.
- Applications for the redemption of shares without reason and information on the company's long-term strategy with regard to capital measures.
- The redemption of shares is not equally regulated for all investors. There are advantages for individual shareholders.
- The price at which the shares are to be redeemed exceeds the relevant market price by 10 per cent.



- A redemption volume of more than 10 per cent (inventory resolution) or a period of approval of more than five years.
- Authorisation to re-issue preference shares that have been redeemed.

2.2.3 Appropriation of profits

Critical factors in the appropriation of profits can be regarded as:

- The dividend not being appropriate by comparison with the industry and not being consistent with the financial result of the company.
 - The dividend is paid out of the capital (except in specifically justified exceptional cases)
- Distributions that could be used to represent future growth in the event that they are retained.

2.3 Auditor

Critical factors in the appointment of the auditor:

2.3.1 Auditing of financial statements

- Doubts as to the correctness of the audit
- Pending proceedings against the audit firm or the auditor responsible

2.3.2 Independence

- The independence of the audit firm and/or the auditor responsible for the preparation and presentation of the annual financial statements is not guaranteed in the long-term. Consulting activities are not sufficiently disclosed (if applicable also due to a negative declaration) to determine independence.
- The auditor is not specifically named in the annual report. Indirect mention in the audit certificate is not sufficient.
- The auditor has been unchanged for at least five years or the audit firm has been unchanged for at least ten years. Information on the duration of the appointment should be disclosed in the annual report or be permanently available on the website.

2.3.3 Remuneration

- The fee is not reported and/or is not appropriate.
- The fee for the audit of the annual financial statements is not disclosed separately from other fees, in particular consulting fees ("non-audit fees").
- The fees for consultancy exceed the audit fees either repeatedly or disproportionately without appropriate reasons.

2.4 Mergers and acquisitions

Critical factors:

- The purchase price offered does not correspond to the sustainable value of the company and there is no sophisticated corporate governance structure.



- The approval of the shareholders shall be obtained through a general meeting in the case of transactions exceeding 30% of the respective stock market value of the acquiring company. The surcharge should relate to a three-month average price.
- Measures to impede acquisitions (poison pills).

2.5 Interests of shareholders

Critical factors:

- Lack of compliance with the "one share – one vote" principle.
- Multiple voting rights, voting caps and special rights (e.g. delegation rights, loyalty dividends or loyalty shares for long-term shareholders).
- Amendments to the articles of association that worsen the rights of shareholders.

2.6 Environmental and social impact

Flossbach von Storch believes that a company can only be successful in the long term and operate sustainably if it serves its customers well, motivates its employees, deals fairly with its business partners, invests sufficiently, pays taxes and does not cause damage to the environment. Therefore, we not only concern ourselves with company business models and balance sheets, but also with the people behind those companies. The following points, among others, can therefore be identified as exemplary standards with a view to the ongoing analysis of target investments:

- Is the company's management giving proper and adequate consideration to the general environmental, social and economic conditions?
- Are the managers employed by the target company acting as responsible and sustainable owners?

When assessing these points, external ESG data suppliers are used as an additional secondary source for evaluating target companies.

2.7 Corporate governance code and best practice

The following benchmarks apply:

- The benchmarks for analysing the critical points in the general meeting submissions are generally country-specific codes; in the case of issuers listed on a German stock exchange, these are the requirements of the German Corporate Governance Code (available online at: <http://www.dcgk.de/de/kodex.html>) In addition, key elements of recognised principles relating to corporate governance (e.g. the UN, OECD, ICGN) and ESG issues surrounding sustainability and integration of environmental and social issues are to be taken into account when examining critical points.
- Reasons must be given for any proposed amendments to the articles of association.
- The review of compliance with other corporate governance issues not expressly mentioned in the above sections is based on the relevant legal requirements and market-standard procedures.

2.8 Risk considerations

The following benchmarks apply:

- The fundamental risk assessment of a target company should also include issues surrounding sustainability.



- Investment decisions are based on the risk/return ratio of the underlying company security. The evaluation of future company performance plays a crucial role here, in particular the reliability and amount of future income. Shares in companies that reliably generate high and rising cash flows tend to have a more attractive risk/return ratio than shares in companies with highly fluctuating or even eroding earnings profiles.
- In this context, we treat ESG topics in the same way as all other influencing factors. In the context of our analysis process, we specifically ask ourselves: "Are there serious conflicts with our goals as long-term investors in relation to environmentally responsible actions (E), socially responsible actions (S) and corporate governance (G)?" Every (possible) conflict is put to the test and evaluated in terms of its impact on the security and amount of earnings potential. The sustainability risk is therefore to be considered as part of the general price risk.

2.9 Other aspects to consider

- Further aspects that may be considered are responsible investments in the interests of the investors and, insofar as this is in the interests of the investors, taking into account the concerns of good corporate governance and sustainability.
The company's diversity policy should be drafted and published. There should be regular reports on the progress of the implementation.

3 PUBLICATIONS

Details on the exercise of voting rights and engagement should be published at least annually. Various media, such as the annual report, fact sheets, marketing brochures and the like can be used for this purpose. The corresponding documents can be viewed at any time free of charge on the website www.fvsinvest.lu (or the respective country-specific websites of the Flossbach von Storch Group).

These guidelines are reviewed on a regular basis and adapted to current developments.

