

# Sustainability policy



Flossbach von Storch

"Sustainability is nothing new to us, but 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



## PRELIMINARY REMARKS

The sustainability policy of the Flossbach von Storch Group (Flossbach von Storch AG, Flossbach von Storch Invest S.A. and subsidiaries, also referred to as "FvS Group" or "Flossbach von Storch") sets out how aspects of sustainability in relation to Environment, Social and Governance (ESG) factors, are taken into account in the management of the investment funds managed by FvS Invest S.A. (the "Funds") and in financial portfolio management by Flossbach von Storch AG and how they are fully embedded in 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 the trustee of its customers' 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 WITHIN THE INVESTMENT PROCESS OF THE FLOSSBACH VON STORCH GROUP

### 2.1 Integrating ESG

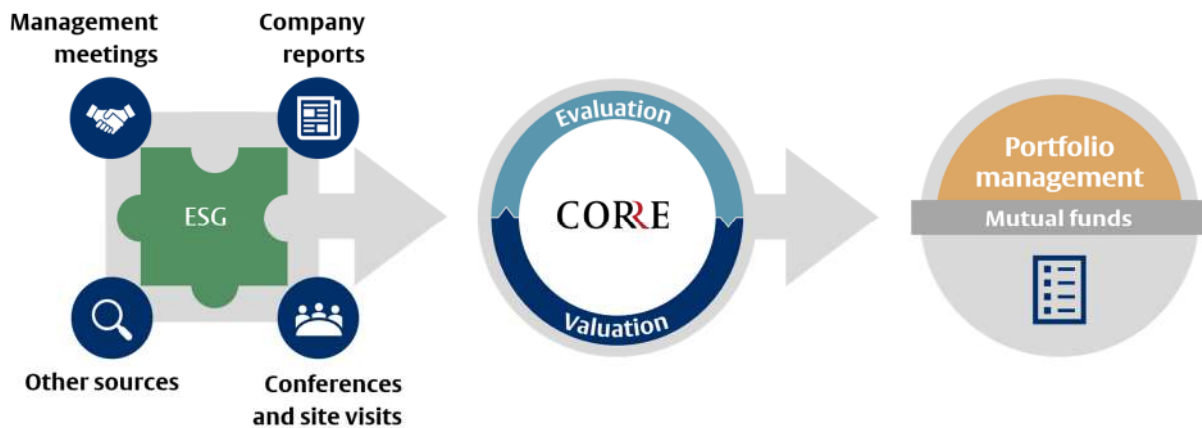
Flossbach von Storch embeds ESG factors comprehensively into its multi-stage investment process. Starting with a fundamental analysis as part of the in-house CORE (Corporate Ownership Risk/Reward Evaluation) analysis process, each new investment idea is tested thoroughly for its quality. Only when a company generates high and secure returns over the long term and there are no serious ESG risks will an investment idea become a potential investment and therefore be added to the Focus List. The fund managers can only invest in securities that are on the internal Focus and/or Guarantor Lists (equities/bonds). This principle ensures that invested securities have been run past the in-house research team and correspond to our own understanding of quality.

ESG factors are explicitly taken into account as part of the in-house evaluation process and are assessed for opportunities and risks. As part of this process, each of the three factors (E, S and G) is considered from the perspective of a long-term investor in order to ensure that none of the aspects will have a negative effect on long-term added value. The multi-stage analysis process places particular emphasis on ethical corporate governance, which is important if a company is to undergo sustained growth. This improves the long-term prospects of a company and can only take place if environmental and social factors are taken into account.

The team of analysts has access to external data sources, including company reports, ESG research data from third parties (MSCI) and a variety of other sources. This data is incorporated into the in-house CORE analysis process. While this process can provide meaningful information to help assess ESG factors, it is never a substitute for in-house analysis.



Process outline of our in-house company analysis:



Sustainability risks constitute a significant component of the investment process. They are made up of events or conditions in Environmental, Social and Governance areas, which, when they arise, could have significant actual or potential negative impact on the value of an investment. Sustainability risks can have a considerable impact on other types of risk, including, for example, the 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 (and/or on the respective country-specific Flossbach von Storch Group website) 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 is fulfilling 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.

## 2.2 Active owner

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

The interests of shareholders are taken into account as part of a stringent 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.

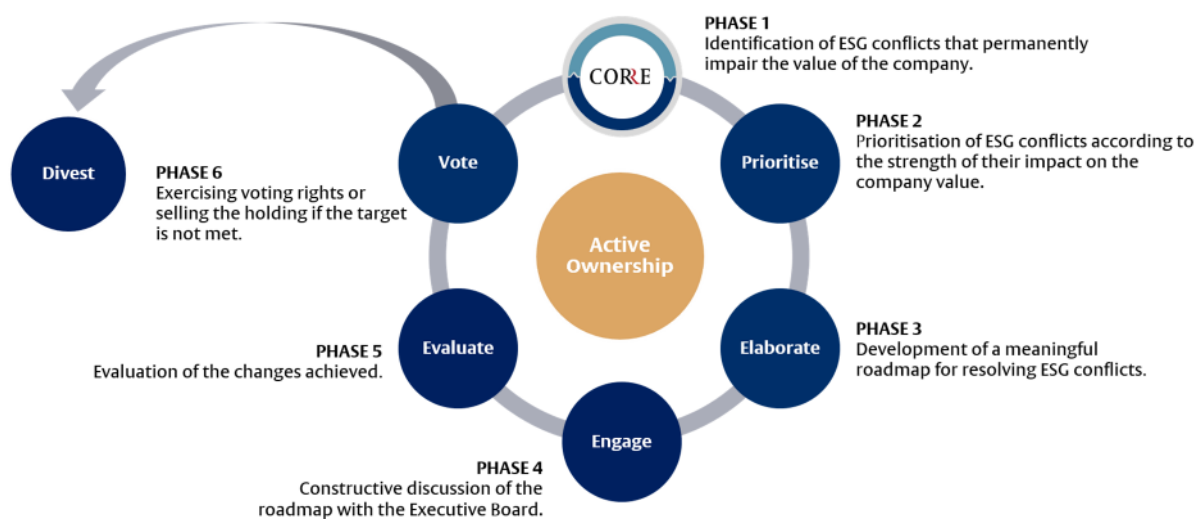
Flossbach von Storch considers itself to be a constructive sparring partner that makes meaningful suggestions and helps management with implementation. The analysts focus on a limited number of companies, giving them both the opportunity and enough time to guarantee progress and ensure that mutually defined objectives are met. If management does not sufficiently take the necessary steps to achieve a sustainable business model, the fund management will use its voting rights or will sell the holding.



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 oriented 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.

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 (and/or on the respective country-specific Flossbach von Storch Group websites) and at [www.flossbachvonstorch.de/en/](http://www.flossbachvonstorch.de/en/).

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



## 2.3 Organisational structure

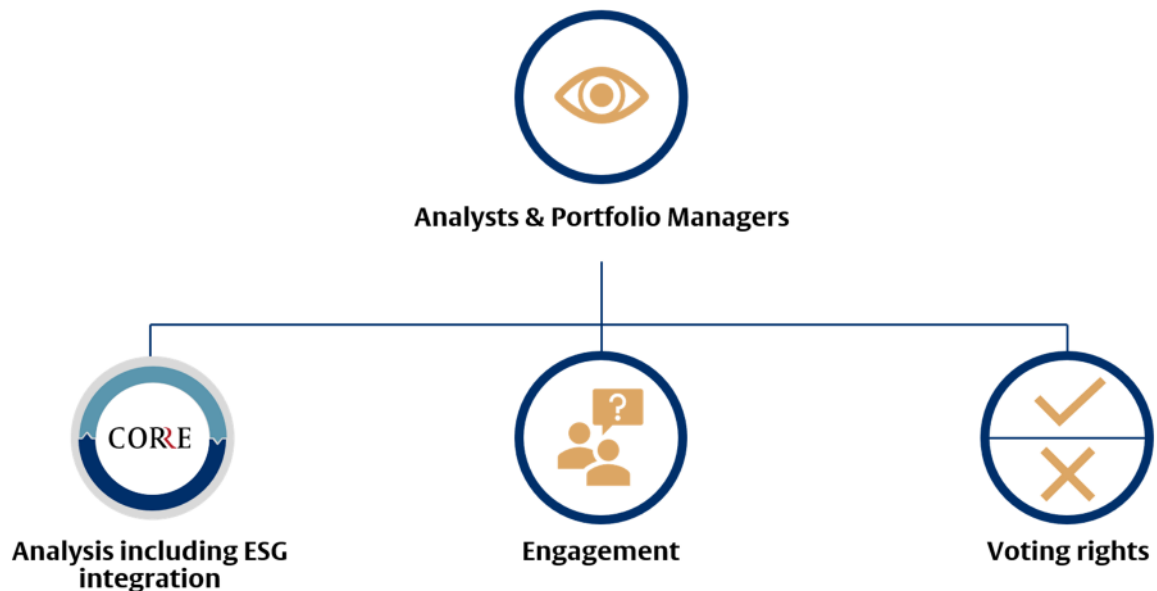
The portfolio management process does not apply any rigid ESG filters; instead, it uses the in-house CORE analysis process to decide on a case-to-case basis whether or not a company stands out in a negative way as far as its ESG activities are concerned. The basis for making a decision in this regard 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 embedded 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 embedded in the investment process and is monitored by the Chief Investment Officer (CIO) and by the Equity Research Manager and ESG Research Manager of Flossbach von Storch AG. ESG integration is implemented, discussions are entered into with the companies and voting rights are exercised centrally by the responsible portfolio managers and analysts. Portfolio managers also work as analysts and thus gain an in-depth understanding of the investments, one which spans all investment categories.



Voting rights are usually exercised by the portfolio manager. The starting point for the decisions taken are the recommendations prepared by the analyst assigned to a portfolio or issuer in consultation with the portfolio manager in advance of an annual general meeting or a vote and which are in accordance with the investment strategy of the investment fund concerned.

Comprehensive responsibility:



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 in accordance with the integration of sustainability risks into the investment decision-making process.

## 2.4 Group-wide constraints placed on the investment universe

As a responsible asset manager, the Flossbach von Storch Group has also undertaken to promote and adhere to conventions aiming to ban the production and trade of controversial weapons. 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 agreement on cluster munitions, which was signed in 2008 and came into force in 2010 (the "Oslo Convention"),





- the agreement on 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 (CBRN) weapons,
- laser weapons,
- enriched uranium,
- incendiary bombs (white phosphorus),
- weapons of mass destruction (WMD)

Flossbach von Storch avoids starting up 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 prohibition involves the entire supply chain, from production to sales to associated services.

## 2.5 Fund-specific features

### 2.5.1 Flossbach von Storch sub-funds

The investment strategy of the Flossbach von Storch sub-funds is based on the generally applicable sustainability approach of ESG integration, as well as the participation and exercise of voting rights by FvS Invest S.A. and it also takes into account the exclusions on controversial weapons as set out above.

Furthermore, the Foundation sub-funds reflect a broader consensus of values in a non-profit sense. Taking ESG criteria for sustainable financial instruments into consideration, the sub-fund-specific investment policy for the Foundation sub-funds defines categories of companies which the Foundation sub-funds may not invest in. 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/).



## 2.5.2 Mandates

The investment strategy for the individual mandates of Flossbach von Storch AG is based on the generally applicable sustainability approach of ESG integration, as well as the participation and exercise of voting rights, and it also takes into account the exclusions on controversial weapons as set out above.

In addition, the composition of the special funds and mandates can also be tailored to the customers' sustainability criteria. This enables ethical or moral standards to be customised. Additional negative lists formulated during this process are mainly based on the exclusion of certain securities, sectors or even countries. Carbon footprint benchmarking mandates represent another option for single-title mandates.

## 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 has been published on the [www.fvsinvest.lu](http://www.fvsinvest.lu) website (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 complies with the 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 (and/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)

Flossbach von Storch AG signed the United Nations Principles for Responsible Investment (UN PRI) on behalf of the Flossbach von Storch Group in January 2019. 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 reviewed on a regular basis and is updated as needed depending on business developments and adjustments in strategies for implementing sustainability criteria and risks. The current version of the sustainability policy has been published on the FvS Invest S.A. [www.fvsinvest.lu](http://www.fvsinvest.lu) website (and/or the respect country-specific Flossbach von Storch Group website) and on the Flossbach von Storch AG <https://www.flossbachvonstorch.de/en/> website.

