

# Guidelines for sustainable investing

December 2024



## Our understanding

Quoniam is committed to creating value for a better future through innovative and science-based investing. As an active asset manager, we believe that sustainability and economic value are positively correlated. This attitude of conducting ourselves and our business in a responsible manner is reflected in our purpose statement: 'We provide value through innovation and science-based investing. For a better tomorrow.'

A better future means better long-term investment performance based on risk-adjusted returns for our clients. It also means using our capabilities to improve the quality of the system in which we operate and investing our clients' capital to make a positive impact on the world. We believe that the financial sector has an essential role to play in the transition to a more sustainable economy and society, and we strive to create value for different stakeholders - clients, employees and shareholders.

In line with our science-based approach, we determine the sustainability of an investment through a transparent and objective process that takes into account a wide range of high-quality and proven data. We analyse and process a wide range of sustainability data that is integrated into our quantitative investment platform.

We firmly believe that environmental, social and governance (ESG) considerations should be part of every investment process. Our sustainability approach to the investment process is set out in our Sustainable Investment Guidelines (Guidelines). The Guidelines are supplemented by other frameworks to which we adhere, such as the BVI Code of Conduct, the German Corporate Governance Code, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

Our guidelines apply to all portfolios where we have full discretionary powers. When we manage a mandate with specific client requirements, we endeavour to incorporate the principles of our guidelines into the management of that mandate.

We are committed to the Principles for Responsible Investment (PRI). Our aim is to increase the acceptance of sustainable investment wherever we operate.

Corporate social responsibility is firmly anchored in our DNA and is one of Quoniam's core corporate values. We focus on society, the environment, diversity and inclusion as well as good corporate governance.

## Our approach

Our approach to sustainable investing is based on recognised national and international standards, which we support and promote. As an active portfolio manager, we are convinced of the long-term positive correlation between sustainable behaviour and economic value. For us, sustainability is a key factor for the future viability of the countries and companies in which we invest and is therefore in line with the interests of our clients. This is why we include not only financial parameters but also sustainability aspects (risks and opportunities) in our investment decisions to create long-term added value for our clients.

We help investors to integrate sustainability into their portfolios in a meaningful way at various levels and offer different approaches to implement sustainable investing in our investment decisions. With the screening, integration and engagement modules, portfolios can be built according to sustainable criteria, considering E, S and G factors in conjunction with customised risk management. In addition, we offer our clients impact-aligned strategies with a thematic focus, such as our Climate Transition strategy.

We take ESG risks into account in all our mandates, whereby the specific approach we choose always depends on the mandate in question. When launching a new asset management or insourcing mandate, we are in dialogue with our clients to incorporate our guidelines into portfolio management as far as possible.

We work with companies to promote responsible corporate management and good corporate governance in the belief that this also increases the value of the company in the long term.

Our approach includes our Proxy Voting Policy and our Conflicts of Interest Policy, which implement both legal and voluntary standards of behaviour. In all cases, our decisions are based on acting in the best interests of our clients and other stakeholders.

## Codes and initiatives

In addition to the legal and regulatory requirements, we consider the following codes to be particularly relevant:

- United Nations Principles for Responsible Investment (UN PRI).

By signing the UN PRI in 2012, we committed to incorporating sustainability aspects even more strongly into our investment analyses and decision-making processes. This also includes supporting the implementation of the PRI across the board and continuously driving forward our own implementation of the principles.

- BVI- Code of Conduct.

The rules of conduct issued by the BVI Bundesverband Investment und Asset Management set a standard for good and responsible handling of investors' capital and investors' rights. In addition, BVI members have set themselves the goal of taking responsibility for ESG issues.

We also comply with the following regulations and standards:

- UN Global Compact
- OECD Guidelines for Multinational Enterprises
- UN-Guiding Principles on Business and Human Rights
- EFAMA-Code on External Governance
- Global Investor Statement on Climate Change
- The Oslo Convention on Cluster Munitions, which bans cluster bombs, and the Convention on the Prohibition of Anti-Personnel Landmines.

## Governance

Responsible action is anchored at all levels of our organisation, including in the investment process. While the management focuses on the overarching strategic development and monitoring of our guidelines, these are implemented in the investment process by the respective portfolio managers, taking into account the individual mandate. Where mandated by the client, we exercise our voting rights taking ESG issues into account. The Risk Control & Performance team monitors compliance with specific investment guidelines and client specifications, such as the exclusion of companies from the investment universe.

Our SI Committee monitors all sustainable investment aspects of the investment process. As a cross-functional body, the SI Committee is responsible for defining Quoniam's SI strategy and sustainability objectives. It is also responsible for defining and monitoring the sustainability criteria in the investment process and for implementing ESG strategies and ESG-related regulatory requirements. The SI Committee recommends the criteria for the screening process, the quantitative metrics and ratings used in investment analysis and portfolio construction, as well as the guidelines for engagement and proxy voting. It comprises the Chief Investment Officer (a member of the Executive Board), experts from the areas of portfolio management, business strategy and product management as well as client relations.

The SI Committee monitors various processes on a quarterly basis to ensure the implementation of these guidelines. At the same time, the committee is a driving force for sustainable investment at Quoniam.

The charter of the SI Committee and the scope of its tasks are approved and the fulfilment of its tasks is monitored by the Executive Board.

At the working level, a cross-departmental SI team deals with a variety of sustainable investing topics. Our SI team consists of the members of the SI Committee and experts from the areas of Portfolio Management, Research, Governance, Product Communications, Risk Control and Client Relations. Regular training courses and workshops are offered to provide all departments and teams with the necessary knowledge about sustainable investing.

### Human rights

Our SI Committee assesses the risks and opportunities in the areas of environmental, social and governance (ESG), which also includes an assessment of companies' human rights issues. The relevant data comes from MSCI ESG Controversies, which takes into account the principles of the UN Global Compact, the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

In addition to our ESG screening, where mandated, we use our collaborative engagement approach to influence companies on human rights issues, e.g. in relation to the Corporate Due Diligence Act to prevent human rights abuses in supply chains.

We are subject to extensive disclosure obligations in accordance with the EU Sustainable Finance Disclosure Regulation (SFDR). Our declarations of compliance with the SFDR can be found on our [Website](#).

## Methodology

### *Screening*

Screening means that controversial companies or controversial countries are filtered out of the investment universe. All our portfolios are subject to minimum requirements with regard to serious controversies: we generally exclude manufacturers of controversial weapons and issuers that violate human and labor rights, for example. Even more comprehensive exclusion criteria apply to funds that are managed according to a dedicated SI approach.

Quoniam has developed its own screening system and defined criteria that have resulted in a list of companies and other issuers to be excluded. In practice, this means that issuers are systematically excluded at the beginning of the investment process. The screening is based on predefined principles that are oriented towards international standards. For Quoniam to be able to invest in a security, the issuer must fulfill all of these principles.

The exclusion list and the underlying criteria are reviewed on a regular basis by the SI Committee on a quarterly basis. Individual exclusions are approved by the SI Committee and taken into account in our Quoniam Screening List.

All mutual funds of the Quoniam Funds Selection (QFS) SICAV managed by Quoniam are screened accordingly, as are the insourcing and asset management mandates if requested by our clients. We mainly use the MSCI Business Involvement Screening and the ESG Government Rating as well as external research such as the Freedom House Index.

### *Integration*

Our holistic integration approach reflects that ESG is an integral part of the investment process, with ESG data and criteria being considered simultaneously with traditional financial analysis during the portfolio construction process. ESG integration results in a portfolio with a better sustainability profile, optimized for example in terms of ESG scores, carbon footprint or our climate signal.

ESG scores are often used in the context of ESG ratings. They enable us to cover a wide range of sustainability indicators when selecting securities.

Ecological footprints: A prominent example of an ecological footprint is the CO2 footprint (carbon intensity) of companies. Emissions are of particular - and growing - importance in the pursuit of the internationally accepted 1.5 degree target and the medium to long-term decarbonization of our economic system. The weighted key figures of the individual companies in the portfolio result in the portfolio's carbon footprint. This calculation method makes it possible to view the ecological footprint of a portfolio without it being distorted by the absolute value of the portfolio or the value of the capital invested.

We apply our ESG integration approach to our equity and bond mandates. Our SI Committee continuously reviews the integration criteria and the underlying data and makes adjustments and additions where necessary.

## *Engagement*

As an asset manager, we offer proxy voting and corporate dialogs in cooperation with Union Investment, depending on the mandate.

We believe that there is great value in a long-term investment approach where we work with companies to help them become more sustainable. Quoniam's engagement is therefore based on a collaborative approach to maximize impact on relevant sustainability issues. This collaborative approach, which aims to mitigate risks and promote sustainable behavior, is implemented in two ways: through a constructive dialogue with companies and at general meetings, where we make proposals and vote in line with our clients' values (proxy voting).

Our top priority around engagement is to be a responsible and active asset manager that positively influences companies in terms of ESG risks and opportunities. Our aim is to promote good corporate governance and make a positive contribution to the long-term growth of company and shareholder value. These engagement activities follow each investment. For reasons of effectiveness, we work together with other companies in the Union Investment Group in the area of engagement. We also engage through our membership in various initiatives such as Climate Action 100+. In addition we try to influence and promote climate change standards for the financial sector through our involvement in initiatives such as the Institutional Investors Group on Climate Change (IIGCC).

Our engagement process consists of three phases: In the first, preparatory phase (pre-engagement), we identify the problem areas of a company that can be addressed through engagement. The two levers in the actual engagement phase are the exercise of voting rights (proxy voting) and constructive corporate dialogue. In the post-engagement phase, we regularly evaluate the results of our activities and their possible consequences. The time horizon here is long-term, and it can take years for the changes to become visible. If a company does not react (or reacts inadequately) or takes measures despite repeated engagement, the last resort is exclusion from the investment universe. The interim and final results of our engagement activities are documented and monitored.

Acting in the interests of our customers is the guiding principle for our business relationships. We therefore take appropriate precautions to avoid actual and potential conflicts of interest. We have taken various organizational measures to avoid potential conflicts of interest to the detriment of our investors. This approach also applies to our engagement activities. We systematically apply the principles, values and criteria set out in Quoniam's general "Conflict of Interests Policy".

Through the three building blocks of screening, integration and engagement, we are able to put together portfolios for our clients that are in line with their investment principles and their understanding of sustainability. In doing so, we always adhere to the individual guidelines we have agreed with our clients.

### *Impact-aligned investing*

In addition to our approach to managing ESG risks, we offer impact-aligned investment strategies. By aggregating various raw data on specific topics, such as climate change, we generate our own signals that go beyond financial aspects. This approach allows us, for example, to emphasize the transformational properties within our investment process from a quantitative perspective. We recognize the limitations of impact investing with liquid assets. We therefore practice impact-oriented, impact-aligned investing. However, we are constantly striving to improve our methodology by working with companies to report on impact.

### *ESG-Data*

We select our data and data providers based on the quality of the data, compatibility with existing data, statistical relationship to financial factors, added value to our investment process, thematic context, regulatory requirements and the service and quality of the data provider.

We check all data thoroughly before incorporating it into our investment process. The data is checked for quality, coverage and correlations to our factors. This process includes systematic due diligence on frequently imported ESG data to ensure data quality.

## Climate change

Tackling the climate crisis requires change from all of us, as individuals, as individual companies and as an industry. As asset managers, we have a responsibility to solve the investment challenges that are important not only for our stakeholders, but also for the planet. Quoniam is committed to supporting the transition to a low-carbon economy by 2050 for a better tomorrow. This goal is in line with the internationally agreed target of limiting global warming to no more than 1.5°C above pre-industrial levels.

To achieve this long-term vision, we have set ourselves a series of interim targets that we are working towards as part of the Net Zero Asset Manager Initiative.

In line with the Net Zero Investment Framework (NZIF) published by the Institutional Investors Group on Climate Change (IIGCC), the carbon neutrality target relates to Scope 1 and 2 carbon emissions financed by all assets under management, applying this measurement methodology wherever appropriate and possible. This includes all direct investments in equities, equity-linked securities, bonds and securities with the characteristics of bonds. For asset classes such as government bonds, currencies, derivatives and commodities, this method of measuring funded issues cannot always be applied. This is either because the instrument itself has no direct influence on greenhouse gas emissions in the real economy or because we as investors cannot exert any direct influence on the issuer. For the purposes of this measurement, the amount of emissions we finance is considered proportional to the volume of our investment in relation to the enterprise value of the company concerned. This is in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and the Partnership for Carbon Accounting Financials (PCAF).

Data for Scope 3 emissions is still either unreliable or not readily available, so we do not currently have a Scope 3 target. However, we continue to monitor the Scope 3 emissions financed by our investments and seek to reduce them where possible through active engagement. The measures and efforts to align our mandates with the Paris Agreement are outlined in our Climate Policy.

Quoniam has acquired climate-related data from MSCI Inc. to incorporate climate-related risks, opportunities and scenario analysis (e.g. climate VaR) into the investment process. Our SI team provides research and analysis on the financial implications of climate change, while the SI Committee oversees the process.

## Transparency and reporting

Part of our understanding of fiduciary responsibility is that we make our behavior and the reasons for our decisions transparent. Responsible investment is part of our overall corporate communication. As a signatory to the PRI, we publish an annual PRI Transparency Report that discloses our ESG activities, including recent developments in our strategy and approach.

We also report on sustainability in our regular mandate-specific reporting in accordance with individual client agreements. This includes quantitative information on E, S and G as well as the carbon intensity of the portfolio compared to a reference benchmark, sectors and specific securities. This information provides an indication of where each portfolio stands in terms of responsible investment. In particular, our reporting includes the following:

- Overview of the sustainability factors (distribution of E, S and G as well as the carbon intensity of each portfolio compared to the benchmark)
- Contribution to active ESG exposure and to carbon intensity, by sector
- List of portfolio stocks with the highest and lowest and lowest contribution to active ESG exposure and carbon intensity
- Additional information on environmental footprints, SDG contributions strategy-specific ESG key figures
- strategy-specific ESG key figures
- various GHG indicators and climate risk indicators
- Taxonomy alignment.

We report quarterly on engagement activities for the QFS SICAV mutual funds managed by Quoniam and for client portfolios where we are mandated to perform engagement. These reports contain information on our voting activities and relevant company dialogs.

## Legal notice

This document is intended to provide information about our internal principles. It has been designed and prepared with care by Quoniam Asset Management GmbH. Nevertheless, Quoniam does not guarantee that it is up-to-date, correct or complete. The contents of this document do not constitute recommendations for action.

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Unless otherwise stated, all information and statements were last updated on: 30/12/2024.