



GUIDELINES FOR RESPONSIBLE INVESTMENT

Introduction

As a company run by its Managing Partners, seizing the moment while taking responsibility for our actions is what distinguishes our corporate culture. We are completely convinced about what we do. At the same time, we are aware of our responsibility towards society, our clients and our employees, and we are committed to the Principles for Responsible Investment (PRI). It is our aim to enhance the acceptance of sustainable investing on an international level. This idea of conducting ourselves and our business in a way that is socially responsible is also reflected in our Mission Statement.

We strongly believe that environmental, social and governance (ESG) considerations should have a place in every investment process. Our approach to sustainable action in the investment process is laid down in our Guidelines for Responsible Investment (GRIs), which complement two other conventions that we apply, the BVI Rules of Conduct and the German Corporate Governance Code. Our GRIs affect all funds that we manage ourselves. Where we are entrusted with a mandate with specific requests, we work toward the principles of our GRIs being included in that management.

Our understanding

We feel committed to the sustainability of society and of the environment, and became a PRI signatory in 2012. Our pledge to the Guidelines at hand is complemented by our Voting Policy and our Principles for Dealing with Conflicts of Interest, implementing both regulatory and voluntary standards of conduct. No matter the document, acting in the best interests of our clients is the basis for all our decisions.

The assets we manage using sustainable strategies for our clients make a significant contribution to the leading position the Union Investment Group holds in sustainable assets under management in Germany.

In fulfilment of our clients' wishes, we may take different approaches to implement the GRIs in our investment decisions – screening, ESG integration, or engagement (see 'Methodology' section).

Which approach we choose will always depend on the individual mandate structure of the investor. When creating a new asset management or insourcing mandate, we strive to have the following Guidelines included in the portfolio management to the greatest extent possible.

Our Golden Rules for Responsible Investment

Our approach to responsible investing is based on leading 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 action and economic value. We consider sustainability to be a key factor in the future viability of countries and corporates we invest in, and is therefore in line with our clients' interests. That is why we not only take financial parameters into account when making investment decisions, but also sustainability aspects in order to create long-term added value for our clients. We also engage with corporates to promote responsible management and good corporate governance, thus increasing their enterprise value in the long term.

Our guidelines

Above and beyond legal and regulatory requirements we consider in particular the following codes as authoritative:

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

In signing the UN PRI in 2012, we committed to intensifying the incorporation of sustainability issues into investment analysis and decision-making processes. This includes assuming responsibility for the environment, society and corporate governance.

- BVI Rules of Conduct.

The Rules of Conduct published by the BVI German Investment Funds Association set a standard for good and responsible conduct with investors' capital and investors' rights. Furthermore, BVI members made their aim to assume social responsibility in ESG issues.

- UN Global Compact
- EFAMA Code for External Governance
- Montreal Carbon Pledge
- Global Investor Statement on Climate Change
- Oslo Convention on Cluster Munitions, prohibiting cluster bombs, as well as the Anti-Personnel Mine Ban Convention.

Responsibility

Responsible conduct is enshrined at all levels of our organisation, including the investment processes. While management focuses on overarching strategic development and monitoring of these Guidelines, they are put into practice in the investment process by the respective portfolio manager, who also takes the individual mandate into account. Where our clients have entrusted us with the necessary competences, our Middle-Office team will consider ESG issues in voting. The Risk Control & Performance team monitors adherence to specific investment guidelines and client preferences, such as the exclusion of corporations from the investment universe that do not meet the requested criteria. Overriding responsibility for both processes rests with the Chief Operations Officer (COO). The Governance & Business Advisory team and Chief Compliance Officer (CCO) regularly review adherence to the above-mentioned regulations.

Methodology

Our SRI Committee monitors various processes designed to ensure the implementation of these Guidelines, and reports to management. At the same time, the Committee is a driver of sustainable investment at Quoniam. As a cross-sectional competence, the SRI Committee takes centre stage during the investment process in the implementation and reporting of the principles and guidelines outlined, using our three building blocks of screening, integration and engagement for this purpose.

Screening

Screening means filtering controversial business practices from the investment universe. Quoniam has developed a proprietary screening system and defined criteria that have resulted in a list of companies and issuers to exclude. In practice, this means that issuers are systematically excluded from the investment process from the beginning if they engage in business activities that are deemed controversial as regards weapons, human rights, labour rights, the environment, governance or tobacco production.

The screening is based on six principles. For Quoniam to invest in a security, the issuer must comply with all of them. The principles are in part based on the recognised exclusion list of Norges Bank, which manages the Norwegian Government Pension Fund. The lists, and the underlying criteria, are reviewed on a quarterly basis and adjusted if necessary. All mutual funds of the Quoniam Funds Selection (QFS) SICAV, managed by Quoniam and registered in Luxembourg, are screened, as are special funds and asset management mandates if our clients so wish.

Integration

This holistic integration approach serves to reflect that ESG is an integral part of the investment process, with ESG data and criteria being incorporated into the traditional financial analysis during portfolio construction. ESG integration results in a portfolio with a better sustainability profile, optimised in terms of ESG scores, carbon footprint and the UN's Sustainable Development Goals.

ESG scores: ESG scores are widely used in the context of ESG ratings. They allow us to cover a broad spectrum of sustainability metrics when picking securities for our funds.

Ecological footprints: A prominent example of an ecological footprint is the carbon footprint (carbon intensity) of companies. In pursuit of the internationally accepted 'two-degree target' and the decarbonisation of our economic system in the medium to long term, emissions are of particular – and growing – relevance. To calculate the carbon intensity of an investment portfolio, we look at the carbon emission of a company in comparison with their revenue. The weighted metrics for each portfolio company then yields the portfolio's carbon footprint. With this calculation methodology, it is possible to look at the carbon footprint of a portfolio without it being distorted by the portfolio's absolute value, or the value of the capital invested. Other examples of ecological footprints include waste and water footprints. Calculation and aggregation of these intensity metrics are similar to the approach used for carbon intensity.

UN Sustainable Development Goals (SDGs): The UN has defined 17 Sustainable Development Goals, also known as the Global Goals. Amongst these are an end to poverty and hunger, and the ensurance of affordable and clean energy by 2030. More and more companies report on how they contribute to these SDGs.

Our SRI Committee is constantly validating the integration criteria and underlying data, and provides for an expansion where necessary.

Engagement

We believe that a long-term investment approach, where we work together with corporates to help them become sustainably successful, holds value. Quoniam is quite the active manager when it comes to controlling the assets we hold on behalf of our clients, and representing the interests of our clients to companies. This active engagement approach, designed to avoid risks and encourage sustainable conduct, is put into practice two-fold – in constructive dialogue with companies, and at annual general meetings, to which we submit proposals and vote in line with our clients' values ('proxy voting').

Our first engagement priority is being a responsible and active asset manager, and positively influencing companies on ESG risks and opportunities. We aim to encourage good corporate governance and make a positive contribution to the long-term increase of enterprise value and shareholder value. These engagement activities are downstream to any investment. For the sake of effectiveness, we join forces with other companies of the Union Investment Group for engagement cases. This is also the reason why our Voting Policy is based on the corresponding policy of the Union Investment Group.

Our engagement process comprises three phases: In the first, pre-engagement phase, we identify which pain points of a given company can be addressed through engagement. The two levers in the following, actual engagement phase are: proxy voting and direct, constructive dialogue. In the post-engagement phase, we assess the results of our activities and potential consequences on a regular basis. The time horizon in this is quite stretched, and it may take years for the results of change to become visible. If a company does not react or take action (or does so inadequately), despite repeated engagement activities, the company will be excluded from the investment universe as a last resort. Interim and final results of our engagement activities are documented and controlled.

With the three building blocks of screening, integration and engagement we are able to construct a portfolio for our customers that is in line with their investment principles and understanding of sustainability – and then have it managed actively by us, with quantitative methods. In all this, we observe the individual agreements we made with each of our clients.

Transparency and reporting

Our definition of responsibility includes making our conduct and the reasons behind our decisions transparent. Our philosophy sees responsible investing becoming a part of holistic corporate communications. As a signatory to the UN PRI, we publish an annual PRI Transparency Report on our ESG activities that includes updates on current developments in our strategy and our approach.

We also report on aspects of responsibility with reference to a particular investment during our regular mandate-specific reporting, in line with individual client agreements. This includes quantitative statements on E, S and G, as well as on carbon intensity, relating to the overall portfolio, in comparison with a potential benchmark, the sectors contained therein, as well as relating to specific securities. With these statements, we provide transparency as to where each portfolio stands in terms of responsible investments. In particular, our reporting covers the following:

- Overview of sustainability factors (distribution of E, S and G, as well as carbon intensity of each portfolio compared with the benchmark)
- Contribution to active ESG exposure as well as carbon intensity, by sector
- List of portfolio securities with the highest and lowest contribution to active ESG exposure as well as carbon intensity

We report on our engagement activities for the mutual QFS SICAV funds managed by Quoniam on a quarterly basis, as well as on client demand. These reports include information on our voting behaviour and a summary of our activities.

Legal notes/Disclaimer

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CONTACT DETAILS: Quoniam Asset Management GmbH
Westhafen Tower, Westhafenplatz 1, 60327 Frankfurt, Germany,
Phone: +49 69 74384 0, Mail: info@quoniam.com

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Editor:
Quoniam Asset Management GmbH
Westhafen Tower
Westhafenplatz 1
60327 Frankfurt am Main
Phone: +49 69 74384 0
Mail: info@quoniam.com