# Guidelines for Sustainable Investing

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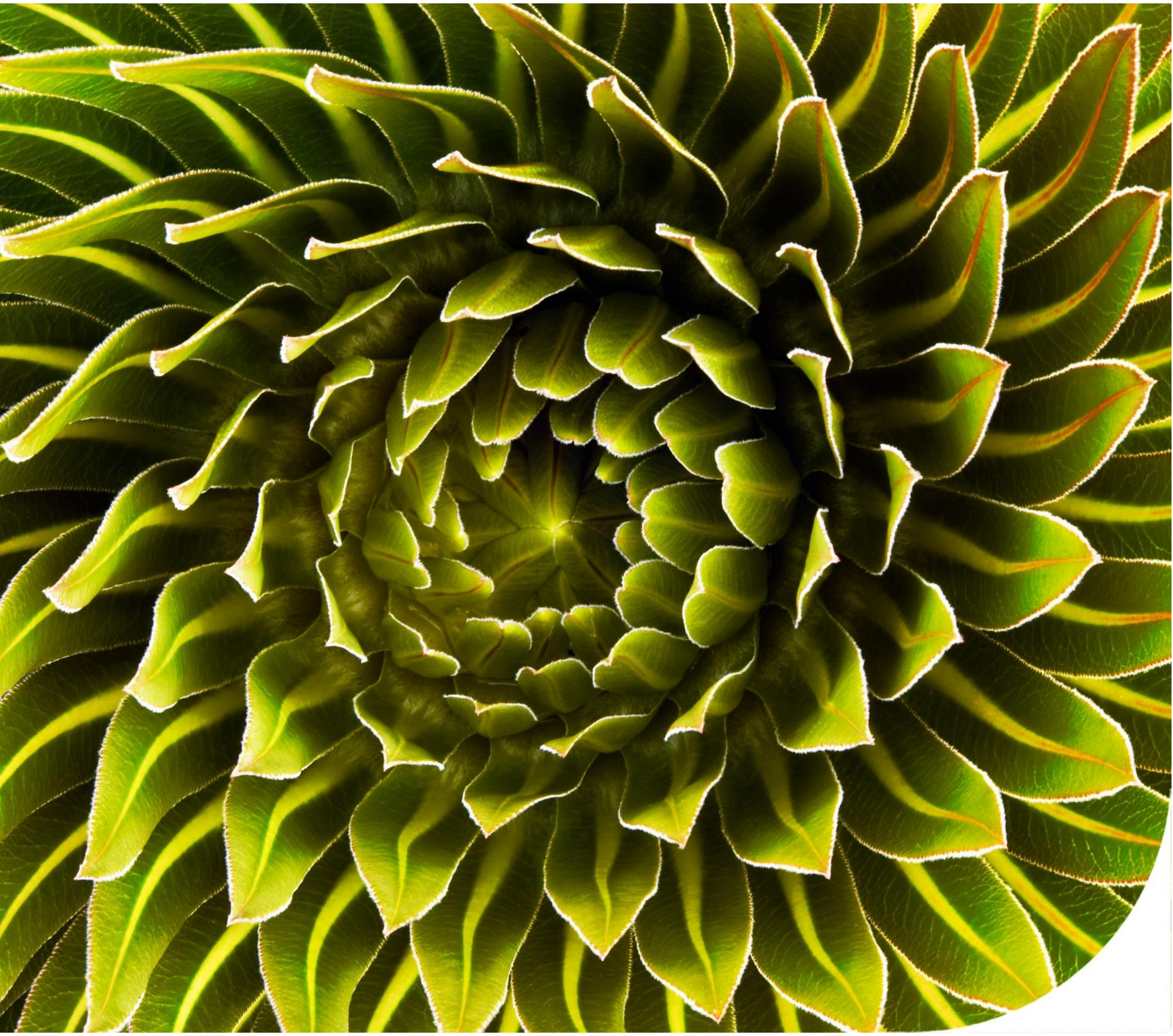

Quoniam Asset Management GmbH

## Our understanding

Quoniam's mission is to create value through innovative and science-based investments for a better future. As an active asset manager, we believe that sustainability and economic value are positively correlated. This mindset 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 tomorrow means better long-term investment performance for our clients based on risk-adjusted returns. 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 multiple stake-holders – clients, employees, shareholders, society at large and the planet.

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, time-tested data. We analyse and integrate a range of sustainability data that can be incorporated into our quantitative investment platform.

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

Our Guidelines apply to all funds where we have full discretion. Where we manage a mandate with specific client requirements, we seek to incorporate the principles of our Guidelines into that management.

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

Corporate Social Responsibility is firmly embedded in our DNA and is one of Quoniam’s core corporate values. We focus on society, the environment, diversity and inclusion, and good corporate governance.

## Our approach

Our approach to sustainable 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 the countries and corporates we invest in and is therefore in line with our clients' interests. Therefore, we integrate not only financial parameters but also sustainability aspects in our investment decisions to create long-term added value for our clients.

We help investors integrate sustainability into their portfolio in a meaningful way at various levels and offer different approaches to implement sustainable investing in our investment decisions. The building blocks screening, integration and engagement enable us to build portfolios according to sustainable criteria under consideration of ESG risk management and E-, S- and G factors. We also offer clients impact-aligned strategies with a thematic focus such as our SDG strategy or our Climate Transformation strategy.

We take ESG risks into account in all of our mandates, whereby the specific approach we choose always depends on the individual mandate. When setting up a new asset management or insourcing mandate, we dialogue with the client to incorporate our Guidelines into portfolio management to the greatest extent possible.

We engage with corporates to promote responsible management and good corporate governance, based on the conviction that this will also increase their enterprise value in the long term.

Our approach includes our Proxy Voting Policy and our Principles for Dealing with Conflicts of Interest, implementing both regulatory and voluntary standards of conduct. In all cases, acting in the best interest of our customers and other stakeholders is the basis of our decisions.

## Codes and initiatives

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

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

By signing the UN PRI in 2012, we committed to further incorporate sustainability aspects into our investment analysis and decision-making processes. This includes taking 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 it their aim to take on social responsibility in ESG issues.

We also adhere to the following codes and standards:

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

## Governance

Responsible conduct is embedded at all levels of our organisation, including the investment process. While the management board focuses on overarching strategic development and monitoring of our Guidelines, they are implemented in the investment process by the respective portfolio managers, considering the individual mandate. Where we have been entrusted by the client to do so, we exercise our voting rights with due regard to ESG issues. The Risk Control & Performance team monitors compliance with specific investment guidelines and client preferences, such as the exclusion of companies from the investment universe.

Our SI Committee oversees all responsible investment aspects of the investment process. As a cross-functional body, the SI Committee is responsible for setting Quoniam's SI strategy and sustainability goals. In addition, it is in charge of defining and monitoring the sustainability criteria in the investment process as well as the implementation of ESG strategies and ESG-related regulatory requirements. The SI Committee recommends the criteria of the screening process, the quantitative metrics and ratings used in the investment analysis and portfolio construction, as well as the engagement and proxy voting policies. It comprises the Chief Investment Officer (a member of the management board), professionals from portfolio management, business strategy and product management, and client relations.

The SI Committee monitors various processes designed to ensure the implementation of these Guidelines on a quarterly basis. At the same time, the Committee is a driver of sustainable investment at Quoniam. The SI Committee's charter and the scope of its tasks are approved, and the fulfilment of its tasks is monitored by the management board.

At the working level, a cross-functional SI Team deals with a variety of sustainable investing topics. Our SI Team consists of the SI Committee members and professionals from portfolio management, research, governance, product communication, risk control, and client relations. Regular training and workshops are offered to provide the necessary knowledge about sustainable investing to all departments and teams.

### Human rights

Our SI Committee assesses environmental, social and governance (ESG) risks and opportunities, which includes an evaluation of companies' human rights issues. The data is taken from MSCI ESG Controversies, which considers the principles of the UN Global Compact, the UN Guiding Principles on Business and Human Rights, and includes the OECD Guidelines for Multinational Enterprise.

In addition to our ESG screening, we use our collaborative engagement approach to influence companies on human rights issues, for example on the Act on Corporate Due Diligence Obligations for the Prevention of Human Rights Violations in Supply Chains.

We are subject to extensive disclosure requirements under the Sustainable Finance Disclosure Regulation (SFDR). Regarding our compliance statements in accordance with the SFDR, please refer to our website [https://www.quoniam.com/en/disclosure-regulation/].

## Methodology

*Screening*

Screening means filtering controversial companies or controversial sovereigns from the investment universe. All our assets are subject to minimum requirements with regards to severe controversies: We generally exclude manufacturers of controversial weapons and issuers who, for example, violate human and labour rights. A more comprehensive set of exclusions applies to the funds that are managed with an SI approach.

Quoniam has developed a proprietary 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 pre-defined principles. For Quoniam to invest in a security, the issuer must comply with all of them.

The exclusion list, and the underlying criteria, are reviewed quarterly by the SI Committee. Individual exclusions are approved by the SI Committee and considered in our Quoniam Screening List.

All mutual funds of the Quoniam Funds Selection (QFS) SICAV, managed by Quoniam and registered in Luxembourg, are screened, as are asset management mandates if requested by our clients. We mainly use MSCI Business Involvement Screening and 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 incorporated during the portfolio construction process, simultaneous with the traditional financial analysis. ESG integration results in a portfolio with a better sustainability profile, optimised for example in terms of ESG scores, carbon footprint and the UN Sustainable Development Goals.

ESG scores: ESG scores are widely used in the context of ESG ratings. They allow us to cover a wide range of sustainability metrics when selecting securities.

Ecological footprints: A prominent example of an ecological footprint is the carbon 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 decarbonisation of our economic system in the medium to long term. The weighted metrics of each portfolio company result in the carbon footprint of the portfolio. This method of calculation makes it 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. The calculation and aggregation of these intensity metrics is comparable to the approach used for carbon intensity.

UN Sustainable Development Goals (SDG): The UN has defined 17 Sustainable Development Goals. These include, for example, ending poverty and hunger or ensuring affordable and clean energy by 2030. We use several sources to measure a company's impact on the SDG.

We apply our ESG integration approach to our equity and fixed income mandates. Our SI Committee continuously validates the integration criteria and underlying data and provides for expansion as needed.

*Engagement*

As an asset manager, we offer proxy voting and company dialogues in conjunction with Union Investment, depending on the mandate we manage.

We believe there is 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 maximise influence on relevant sustainability issues. This collaborative engagement approach, which is designed to mitigate risks and promote sustainable behaviour, is implemented in two ways: through constructive dialogue with companies, and at annual general meetings, where we submit proposals and vote in line with our clients' values ('proxy voting').

Our first engagement priority is to be a responsible and active asset manager, positively influencing companies on ESG risks and opportunities. We aim to promote good corporate governance and make a positive contribution to the long-term growth of company and shareholder value. These engagement activities are downstream from any investment. For the sake of effectiveness, we join forces with other Union Investment Group companies on engagement cases. We also engage through our membership of various initiatives such as Climate Action 100+. In addition, we seek to influence and promote standards for the financial sector through our collaborative work in initiatives such as IIGCC on climate change.

Our engagement process consists of three phases: In the first, pre-engagement phase, we identify a company’s pain points that can be addressed through engagement. The two levers in the actual engagement phase are proxy voting and constructive dialogue. In the post-engagement phase, we regularly assess the results of our activities and their potential consequences. The time horizon in this is long-term, and it may take years for the changes to become visible. If, despite repeated engagement, a company fails to respond or take action (or does so inadequately), the company will, as a last resort, be excluded from the investment universe. The interim and final results of our engagement activities are documented and monitored.

Acting in our client’s interest is the guiding principle shaping our business relationships. Therefore, we take appropriate precautions to avoid actual and potential conflicts of interest. We have put in place various organisational measures to avoid possible conflicts of interest that would disadvantage 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 construct portfolios for our clients that are consistent with their investment principles and understanding of sustainability. In doing so, we adhere to the individual agreements we have with our clients.

*Impact-aligned investment*

In addition to our approach to managing ESG risk, we offer impact-aligned investment strategies. By aggregating various raw data points on specific topics, such as the SDGs or climate change, we generate proprietary signals beyond financial aspects. This approach allows us to emphasise e.g., contributions to the SDG within our investment process from a quantitative perspective. We recognise the limitations of impact investing with liquid assets. We therefore practice impact-aligned investing. Nevertheless, we are consistently striving to improve our methodology by working with companies to report on impacts.

*ESG Data*

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

We rigorously test all data before incorporating it in our investment process. Data is checked for quality, coverage and correlations to our factors. The process includes systematic due diligence of frequently imported ESG data to ensure the data quality.

### Climate change

Tackling the climate crisis will require changes from all of us, as individuals, as a single company, and as an industry. As an asset manager, we have a responsibility to solve the investment challenges that matter, not only to our stakeholders, but also to the planet. Quoniam is committed to supporting the transition to a low-carbon economy to net zero by 2050 – for a better tomorrow. This objective 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 a number of interim objectives 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 objective of climate neutrality refers to Scope 1 and 2 carbon emissions financed by all the assets under management, using this meth-od of measurement wherever it is 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 financed emissions cannot always be applied. This is either because the instrument itself does not directly influence greenhouse gas emissions in the real economy, or because we as an investor are not able to exert any direct influence over the issuer. For the purposes of this measurement, the volume of emissions that we are deemed to be financing is proportional to the volume of our investment relative 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 Partnership for Carbon Accounting Financials (PCAF).

Data for Scope 3 emissions remains either unreliable or not readily available, so we currently do not have a Scope 3 target. However, we will continue to monitor Scope 3 emissions financed by our investments and seek to mitigate them where possible through active engagement. The measures and efforts to align our mandates to the Paris Agreement are set out in our climate policy.

Quoniam has purchased 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 from climate change, while the SI Committee oversees the process.

## Transparency and reporting

Our definition of responsibility includes being transparent about our behavior and the reasons for our decisions. Responsible investing is a part of our overall corporate communications. As a signatory to the PRI, we publish an annual PRI Transparency Report on our ESG activities, including updates on current developments in our strategy and our approach.

We also report on responsibility issues in our regular mandate-specific reporting, in line with individual client agreements. This includes quantitative statements on E, S and G, and carbon intensity for the portfolio compared to a referential benchmark, its sectors and specific securities. These statements provide transparency on 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
- Additional disclosures on ecological footprints, SDG contributions, strategy specific ESG metrics, various GHG metrics and climate risk indicators

We report quarterly on our engagement activities for the QFS SICAV mutual funds managed by Quoniam as well as on client portfolios when mandated to carry out engagement. These reports include information on our voting activities.

## Legal notes/Disclaimer

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