ACTIVE OWNERSHIP
REPORT 2021

Active Ownership

Flossbach von Storch

Sustainability has always been
an elementary component
of our investment process.

Foreward

> We try to form our own opinion. For us, this is the only right way to deal responsibly with the issue of sustainability.

Sustainable investing is booming – and with it accusations of greenwashing directed at the financial sector. The problem is: there is no universally valid definition of sustainability. The first guard rails have been set, but they are so broad that the hurdle of labelling a financial product as supposedly "sustainable" is not very high. The EU taxonomy, which is supposed to provide clear guidelines as to which investment is sustainable (and which is not), again goes so far that there is a risk of getting lost in endless discussions. In the end, there is once again the accusation of greenwashing, as documented by the positive classification of nuclear and gas energy.

This shows how difficult, indeed almost impossible, it is to formulate a uniform definition. There is nothing that does not offer a margin of discretion. Basically, anything can be interpreted into the term sustainability.

It is dangerous to pretend that it is the easiest thing in the world to judge which company, which investment is "sustainable", and which is not. As if the investment world could be easily divided into categories and separated from each other like paper from plastic waste. But that only works for a very few companies and sectors; it doesn't work for the vast majority. There is much more grey than black or white.

We try to deal with the issue constructively and critically. This tends to be interpreted as rejection. But it is exactly the opposite that is the case. Sustainability is complex, and we do not want to make it easy for ourselves – we do not want to think in black or white but shed light on all ESG facets. Therefore, we do not simply follow a market opinion or a trend but try instead to form our own opinion. We believe this is the only right way to deal with the topic responsibly.

Sustainability is more grey than black or white

In public discussions, sustainability is usually equated with being "green" – i.e. the environment. This is understandable, given the enormous challenges posed by the climate crisis. From the perspective of a long-term investor like us, however, this one-dimensional view is too short-sighted. We are convinced that a company can only be successful in the long term if it strives to bring together all three aspects: the "E" (Environment), the "S" (Social), and the "G" (Governance). Dealing with environmental and social issues in the right way is a prerequisite for long-term economic success. And both aspects are significantly shaped by the management of a company.

We attach great importance to a company taking a responsible approach to its environmental and social footprint and addressing the consequences of its activities with prudence and foresight. This also includes defining action plans to fulfil the Paris Climate Agreement. Because sustainably successful companies understand that they have to be part of the solution. They actively face the challenges and future risks posed by the climate crisis. This also applies from a financial perspective with a view to the already far-reaching pricing of CO_2 emissions.

To the best of our knowledge and belief, we are guided by this comprehensive understanding of sustainability when selecting our investments. In this respect, the issue of sustainability is an elementary component of our investment process – and it always has been. We demand foresight from companies, but also flexibility where necessary and the will to adapt to changing circumstances. We also demand this of ourselves as trustees for our clients.

Sustainably successful companies understand that they must be part of the solution.

We are independent in thought and action – this strengthens our role as an active owner.

Independent in thought and action

We build up the most in-depth understanding possible of the companies in which we invest. In doing so, we do not outsource the analysis of how sustainability factors are handled, but instead take a critical look at them. Based on a careful consideration of the sustainability factors that are most important to us, we have created an in-house assessment that is taken into account in our risk-reward ratio of the companies in which we invest and thereby contributes directly to the quality assessment of our investments.

This in-depth examination of our investments makes us independent in thought and action – which also strengthens our role as an active owner. For us, the exchange with the management of our holdings is an important component of our work that contributes significantly to the success of an investment. In order to make a positive contribution to ESG issues at our portfolio companies, we will further intensify the exchange with management in the coming years.

For example, more than 70 per cent of the companies in our investment universe have already set themselves concrete climate targets. We will successively enter into active dialogue with the remaining companies in order to work towards a rethink and initiate a positive development. We will report on these activities and progress in the annual Active Ownership Report.

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ACTIVE OWNERSHIP
=
ENGAGEMENT
+
VOTING

As **active owners**, we see ourselves as constructive sparring partners for the companies we invest in and responsible trustees for our clients. In personal **exchanges** (engagement), we discuss socially relevant and critical issues for companies. We lend weight to our position by exercising our **voting rights**. Within the framework of a dedicated **active ownership process**, we analyse and accompany the development of our investments. Our analysts and portfolio managers are responsible for all measures as an active corrective from a single source. Detailed information can be found in our guidelines on the exercise of voting rights and regarding our engagement, as well as our sustainability policy on the following websites: www.fvsinvest.lu and www.flossbachvonstorch.de.

Active Ownership Process

Divestment

PHASE 1

Identification of conflicts that permanently impair the value of the company

PHASE 2

Prioritisation of conflicts according to the strength of their impact on the company value

PHASE 3

Development of a meaningful roadmap for resolving conflicts

PHASE 4

Constructive discussion of the roadmap with the Executive Board

PHASE 5

Observation and **Evaluation** of the changes achieved

PHASE 6

Exercise of voting rights or disposal of the holding if targets are not met

Source: Flossbach von Storch, data as at: December 2021

Our role as an active owner

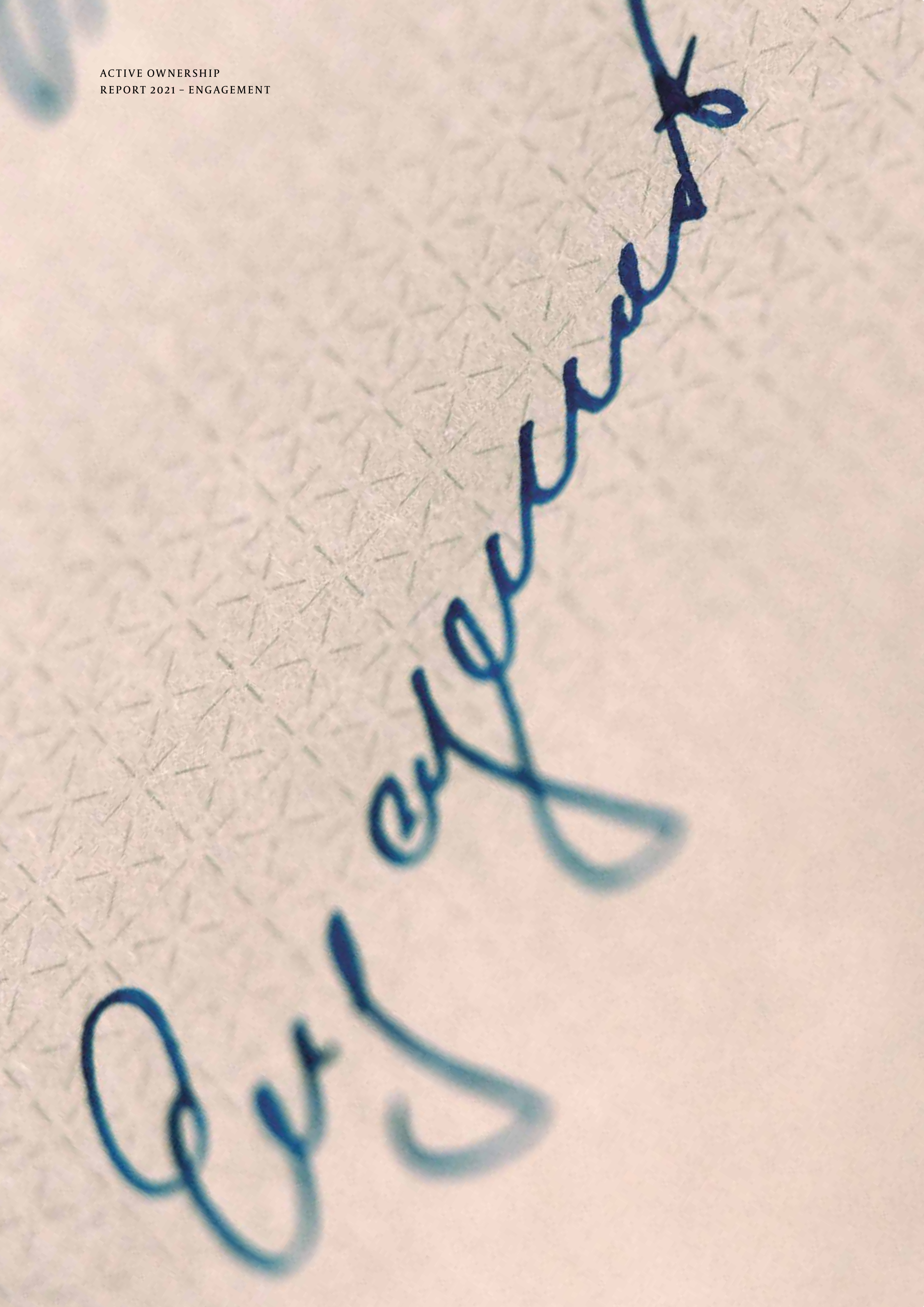
Engagement and voting are important prerequisites for sustainable investing.

As trustees of our clients' assets, we consider it our duty to actively represent their interests in our portfolio companies. For us, the exchange with the management of our investments, as well as the exercise of our voting rights, are important components of our work, which have an impact on the quality assessment of our investments.

As part of a dedicated active ownership process, we analyse and accompany the development of our investments. Serious (ESG) risks that could have a long-term impact on their business development are thus identified at an early stage and discussed intensively with the management. We see ourselves as a constructive sparring partner (where possible) or as a corrective function (where necessary) and see our task as making constructive suggestions in order to accompany the management in the implementation of necessary measures. If the critical points for us are not sufficiently perceived and there are no signs of a positive development in the long term, we reduce or sell the holding.

We lend weight to our position by exercising our voting rights. In doing so, we support all measures that permanently increase the value of a company in the interests of investors and vote against, or have votes cast against, those that run counter to this goal. As soon as we hold more than 0.5 per cent of a company's share capital, or when significant agenda items are up for decision, we exercise our voting rights in accordance with defined criteria and in line with our investment philosophy.

It is our mission to fully understand and continuously follow all the companies in which we invest. We therefore rely on a focused investment universe and concentrate on a limited number of companies; this gives our analysts and portfolio managers both the opportunity and sufficient time to ensure progress and compliance with jointly defined objectives.



Engagement 2021

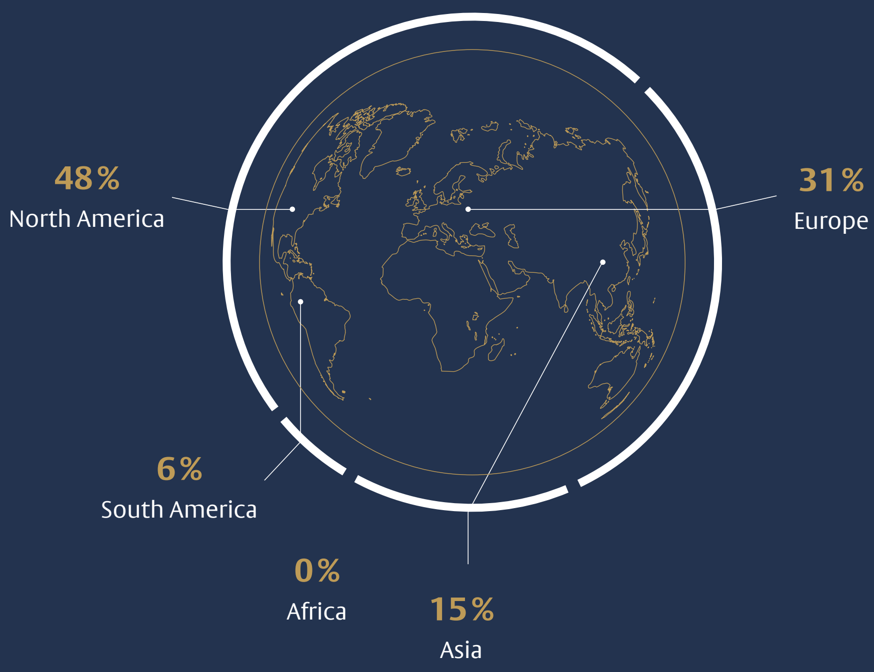
An intensive exchange with company leaders is firmly anchored in our investment process.

In 2021, we held over 200 intensive discussions with companies in 20 countries. These took place mainly in individual discussions at board level.

As in the previous year, the main topics discussed were the direct and indirect effects of the Coronavirus pandemic on future earnings prospects. In particular, we used the personal exchange to elicit and rank the implications of global supply bottlenecks. This helps us to understand the companies' strategies as best as possible and, if necessary, to counteract them in dialogue if we find that a company is not taking sufficient measures to weather turbulence well.

In addition, we have held intensive discussions with technology companies regarding incidents of discrimination, some of which have been very serious. We provide a deeper insight into both engagement activities on the following pages.

Geographical distribution of our engagement activities



Global supply bottlenecks

A question of dependencies

Globalisation is reaching its limits because Covid-19 supply chains are breaking down, sometimes causing major problems for companies worldwide. For investors, this means that investment selection is more important than ever.

Globalisation is partially reversed – for a variety of reasons.

Globalisation has been advancing for decades. It has shaped the business models of entire economies. It has changed many industries and companies, bringing prosperity – at least modest prosperity – to hundreds of millions of people worldwide. For a long time, globalisation seemed irreversible. Today, the perspective is different.

Globalisation is being partially reversed – for a variety of reasons: increasing nationalism in individual industrialised countries, for example, some of whose populations no longer see themselves as winners of globalisation. The (trade) conflict between China and the USA is an expression of this.

Or climate change – frost in Texas, floods and persistent drought in Asia; all in all, increasing freak weather conditions that make the delivery of certain commodities and primary products from certain regions more difficult, or at least delay them.

In addition, there are singular events such as the accident of the container ship "Ever Given", which blocked the narrow Suez Canal for six days in March 2021 and thus caused worldwide supply bottlenecks for microchips, crude oil and textiles. Hundreds of ships carrying goods worth USD nine billion were backlogged off the coast of Egypt. It took weeks to clear the backlog of goods and merchandise in the major ports.

Our job as an active investor is to weigh up the opportunities and risk that may arise.

Supply chains – the weakness of globalisation

Just how fragile global supply chains really are was then demonstrated for all to see by the outbreak and subsequent course of the Coronavirus pandemic. A small virus temporarily forced the world into "lockdown" and caused a massive shift in demand from services to goods. In other words, the money that was (and is) no longer spent on travel or events has flowed (and is still flowing) primarily into consumer durables such as electronics, cars and housing needs. Production capacities can only partially keep up, which has led to shortages of individual intermediate products. As a result, prices for these same intermediate products and their end products have risen sharply.

Covid-19 has ultimately acted as a massive trend accelerator of deglobalisation. For us as long-term investors, this finding is of great importance.

After all, almost all the companies in which we have a stake or which we analyse are globally positioned and thus also part of the supply chains and dependencies. The question is, how much will they be affected should individual chains break? Or conversely: how well will they be able to compensate for possible bottlenecks? And how strong is their competitive position to pass on rising prices to customers?

Our task as an active investor is to assess exactly this as precisely as possible – to weigh up the resulting risk-reward profile. In recent months, we have therefore held talks with the majority of the affected companies in our investment universe to clarify how the respective management is reacting to the supply bottlenecks and the resulting price increase.

In inflationary times it becomes clear how real the much-touted strengths of a company are. Profitability plays a special role here, because highly profitable companies have several options to strengthen their customer relationships and win new customers. They can pay temporarily higher prices for scarce primary products, accept higher procurement costs in order to remain able to deliver, and deliberately postpone price increases to attract new customers.

How severely a company is “affected”

In the competition for motivated and qualified staff, they can pay higher salaries and offer additional benefits. Companies with weak profitability usually do not have these options. A solid balance sheet with low debt also gives the company more room to manoeuvre.

BMW and Daimler, for example, use their flexibility in production and distribution and install the scarce chips mainly in premium models with higher returns on sales. Despite rising raw material costs, delivery delays and bottlenecks in chips, both carmakers achieved record profits last year.

The chemical company BASF, on the other hand, as a major player in the industry, benefits from a global network of locations. In addition to long-standing good relationships, a high purchasing volume is an important argument vis-à-vis suppliers and logistics providers when procuring scarce primary products and freight capacities.

Companies like Nestlé or Procter & Gamble have largely been able to compensate for this in recent years with efficiency gains. Their size is helpful in price negotiations with suppliers. The coming quarters will show to what extent companies will be able to push through significant price increases with major customers again.

In this environment, it is more important than ever from an investor’s point of view to keep an eye on the right companies; companies that have a proven business model, are growing dependably, are profitable and have little debt because they are led by a first-class management. A management that is aware of the long-term importance of good corporate governance and therefore critically examines the environmental and social footprint that the company leaves behind in the course of its business activities and strives to keep it as small as possible.

A good management cares for its suppliers and subcontractors, is careful with natural resources, and is fair to customers and employees.

ACTIVE OWNERSHIP
REPORT 2021 – ENGAGEMENT

Technology groups in focus

Favourites with pitfalls

Shares of big tech companies are considered to be the winners of digitalisation. But are they also sustainable? Investors should take a close look.

Sustainable management requires good handling of all ESG factors.

Shares from the technology sector have been in the focus of investors over the past 24 months. Firstly, there was the rapid share-price rally, in the midst of the Coronavirus pandemic. Tech stocks were and continue to be seen as big beneficiaries of digitalisation. Home shopping, home office, home entertainment – the world was reduced to our own four walls at the time!

Then came the sharp correction, especially for the smaller- and medium-sized technology stocks, whose market capitalisations had previously reached lofty heights. However, it is not to be expected that the tech sector will suffer the same fate as in the years 2000 to 2002. At that time, the technology-heavy Nasdaq Composite Index, which comprises more than 3,000 stocks, fell by almost 80 per cent. Compared to then, many technology companies are rather moderately valued today, especially if the above-average growth potential opened up by the ongoing digitalisation of the entire economy is taken into account. This also applies to other areas, such as financial service providers, the industrial sector, and medical technology, where software and hardware are increasingly merging.

Software giants – in contrast to classic industrial groups and consumer goods manufacturers – are considered comparatively resource-friendly. Due to their supposedly positive carbon footprint, they should therefore not be omitted from any “sustainability fund”. However, in our opinion, to declare them “sustainable” across the board is too short-sighted. Sustainable management requires a good approach to all ESG factors. We therefore always keep a close eye on the “S” as well as the “G”, which is our top priority.

As responsible investors, we take a critical look at a company's approach to its environmental and social footprint.

Fair dealings with employees

Last year, we intensified our exchange with selected tech stocks in our portfolios on the topic of corporate culture. Because in the supposedly most modern companies in the world, incidents of discrimination in the workplace are becoming known time and again. Without a doubt, this is a state of affairs that must not be tolerated. Moreover, a negative corporate culture can develop from this, which in turn can significantly endanger the long-term success of the company. Unlike in manufacturing, for example, the future potential of tech companies is based almost exclusively on human capital.

That is why we avoid companies that are grossly negligent in dealing with such issues; although we are aware that wherever people work together, mistakes can happen, and misconduct can occur – and we cannot rule out either 100 per cent.

This makes it all the more important for us to look at how management reacts to any negative incidents should they occur. As responsible investors, we therefore critically examine the company's handling of its environmental and social footprint and proactively seek dialogue with management.

As examples of our engagement activities, Activision Blizzard and Pinterest have recently been in the spotlight. While several lawsuits were filed against the American video game company for violation of equal pay, gender discrimination and sexual assault, the management of Pinterest has had to deal with the issue of discrimination.

We take these claims and their occurrence very seriously. In independent analyses and discussions with the companies, we have been able to get to the bottom of the allegations.

The specific case of Pinterest involved cases from 2020. On the one hand, two former female employees accused Pinterest of misogyny and racism, and on the other hand, the former Pinterest COO reported discrimination against women in senior management. We immediately reacted to the accusations and entered into an intensive exchange with the management.

As a first step, we pay particular attention to the reactions of the management to such incidents. Does the company's management take the allegations seriously and deal with them proactively and transparently? Does it advocate a comprehensive clarification and are appropriate measures taken to improve the circumstances?

As concrete demands, we have called for full transparency vis-à-vis investors and the public. An important instrument here is, for example, the implementation of internal documentation and reporting on key employee figures. For example, annual reports with information on staff turnover can point to possible grievances. If a company does not manage to recruit employees in sufficient numbers and, above all, to retain them in the long term, our attention as investors is aroused.

From our point of view, the management of Pinterest took the cases seriously and reacted immediately to ensure that such incidents do not happen again. We have closely followed the development throughout 2021 and have had personal discussions with the management each quarter to discuss progress. Even though such incidents should not have occurred in the first place, we consider management's handling of them to be a step in the right direction, which is why we have not divested ourselves of the investment.

The case of Activision Blizzard shows how difficult it sometimes is to recognise grievances at an early stage. For years, the company was listed among the "100 Best Companies to Work For" in the established US business magazine Fortune.

Nevertheless, US authorities filed charges last year. Female employees of the company had to fend off unwanted sexual comments and advances from their male colleagues in the past. Extreme salary differences between men and women also became public and worse career opportunities for women were identified.

We have dealt intensively with the incidents and critically analysed management reaction. Although the measures taken seem comprehensive and far-reaching, we have nevertheless intensively discussed the exclusion of the company from our investment universe due to the seriousness of the allegations.

As concrete demands, we have called for full transparency vis-à-vis investors and the public.

Transparency is the most important building block for our fundamental ESG analyses.

In the meantime, Microsoft has announced the acquisition of Activision Blizzard. The shortcomings at Activision Blizzard are well known to Microsoft. For image reasons alone, Microsoft is therefore likely to try to have a positive effect on Activision Blizzard's corporate culture. We will regularly test this hypothesis in the coming quarters and, in particular, seek dialogue with Microsoft and Activision Blizzard management to evaluate progress in reducing grievances.

We will now gradually incorporate the insights gained from the engagement activities into our analysis process and also use them in our exchange with other companies. In the future, we will pay more attention to and work towards the publication of key employee data by companies. Transparency is the most important building block for our fundamental ESG analyses.

It is important to us not to use rigid ESG filters, but rather to decide on a case-by-case basis and again and again whether or not a company is acting with prudence and foresight with regard to its activities. Due to our focused investment universe, we have the resources as well as the time to examine all ESG facets more closely and to incorporate them into our company analyses.

Voting 2021

We voted at 48 ordinary and extraordinary general meetings in 2021 in accordance with our voting guidelines. We voted against management's recommendations or abstained from voting on 46 out of a total of 673 agenda items. Of these, 22 were votes against the appointment of audit firms. Our voting guidelines clearly state that, from a corporate governance perspective, a change of the responsible auditor or audit firm must take place. If one of our portfolio companies does not comply with this, we vote against the appointment of the audit firm and enter into direct exchange with the company to work towards a change.

Other votes "against" the management included the appointment of directors (5), the issuance of shares (1) and the increase of the share capital (1), the remuneration policy (1) and remuneration report (1), the right to call an extraordinary meeting (1) and shareholder proposals (8).

We focus on a comparatively manageable number of high-quality companies, therefore we can reduce the risk of being invested in potential problem companies. This also leads to an overall rather low number of significant objections to the existing corporate governance.

Voting history

Number of Annual General Meetings in which we participated

2019	2020	2021
14	33	48

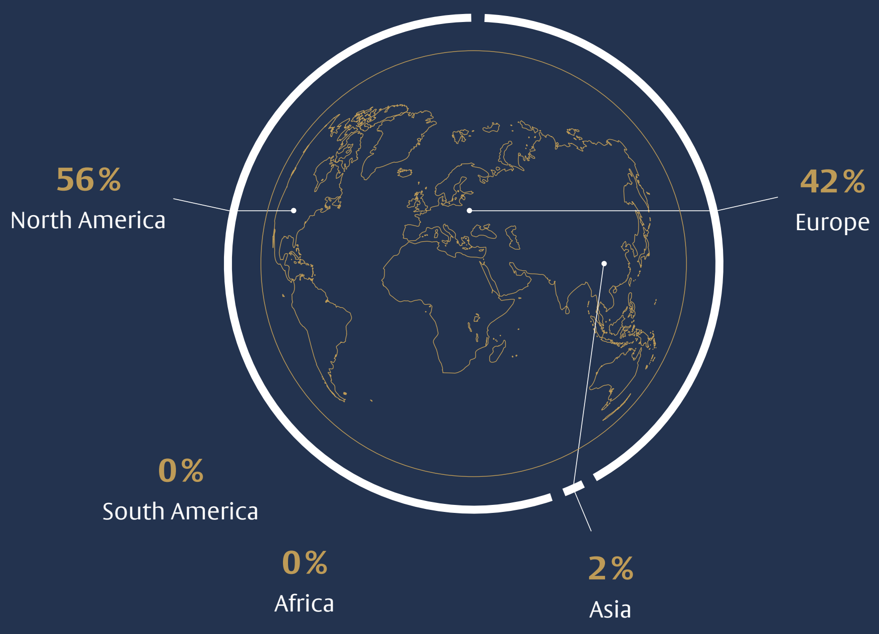
Number of votes against the management

2019	2020	2021
5	17	40

Number of abstentions

2019	2020	2021
2	8	6

Geographical distribution of our voting activities



Extract – exercise of voting rights 2021

1 Nestlé SA Zurich, Switzerland

Annual General Meeting of 15 April 2021

- We approved the remuneration report. Parallel, we are in dialogue with Nestlé to work towards the integration of ESG-related metrics in executive remuneration.
- We voted in favour of Kasper Rorsted as Member of the Board of Directors, despite the accumulation of offices. We see his experience, including as CEO of Adidas, as valuable for Nestlé. However, we are critical of the low attendance of 75% at Board meetings in the previous year. We will discuss this with the company and monitor the further course of the term of office. If nothing changes, we will vote against another nomination.
- We have expressed our support for the company's climate-related action plans. Achieving climate neutrality by 2050 is an important commitment that we support and demand as long-term investors.

2 Vonovia Bochum, Germany

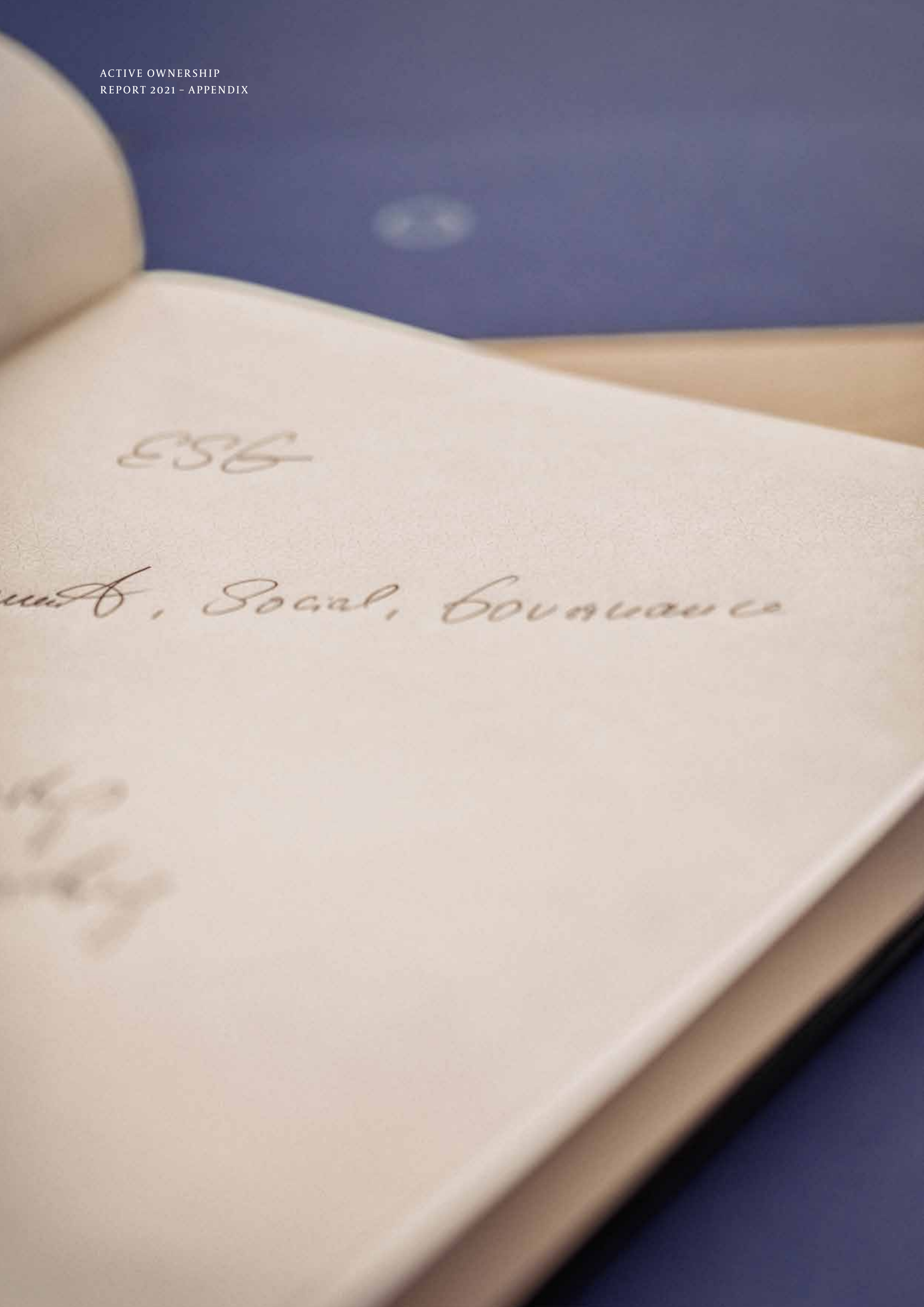
Annual General Meeting of 16 April 2021

- We voted against the management remuneration policy as we consider the maximum total remuneration to be too high, even by industry standards.
- With an amount of up to 50% of the share capital, we consider both the authorised and the conditional capital to be too high and have accordingly voted against the items on the agenda. We do not see any reasons here that would make such advance resolutions appear justifiable and rather consider it appropriate in the sense of good corporate governance that the shareholders can then vote on this separately in the specific case (such as the takeover of Deutsche Wohnen in this case) within the framework of an (extraordinary) general meeting.

3 Agnico Eagle Mines, Kirkland Lake Gold Toronto, Canada

Extraordinary General Meeting of 26 November 2021

- We approved the merger of Agnico Eagle with Kirkland as we believe the resulting increased diversification is positive. The merger will create a balanced global portfolio that is subject to low geopolitical risks.


ESG

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Frederike von Tucher joined Flossbach von Storch's Investment Management team as an ESG Specialist in October 2019. She is responsible for Flossbach von Storch's sustainability strategy and commitment to the internationally recognised UN Principles for Responsible Investment (PRI). A graduate in cultural management, she has spent her professional career over the past 15 years in various positions and sectors in the field of communication and project management.

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LEGAL NOTICE

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