ACTIVE OWNERSHIP REPORT 2020

Active Ownership

Flossbach von Storch

ACTIVE OWNERSHIP
=
ENGAGEMENT
+
VOTING

As **active owners**, we see ourselves as a constructive sparring partner for the companies of our holdings and a responsible trustee for our clients. In a personal **exchange** (engagement), we discuss socially relevant and critical issues for companies. By exercising our **voting rights**, we enforce our position. As part of a dedicated **active ownership process**, we analyse and support the development of our investments. Our analysts and portfolio managers focus on a limited number of companies, which gives us both the opportunity and sufficient time to ensure progress and compliance with jointly defined goals. Detailed information can be found in our guidelines on exercising voting rights and participation as well as our sustainability policy on the websites: www.fvsinvest.lu and www.flossbachvonstorch.lu

Foreword

The Coronavirus has presented us with the greatest social and economic challenges since the end of the Second World War. We are in a crisis which, because of its complexity, cannot be compared with past crises. It is threatening not only our health, but also the existence of many people and the companies for which they work.

Individual economic sectors have been affected to varying degrees. Some companies had to contend with structural issues even before the crisis, while others, such as the aviation industry, were hit unexpectedly. Our investment strategy, which focuses on diversification and quality, has proven to be good protection against crises in the pandemic. We have continuously reviewed the quality of our investments. By quality, we mean the amount and security of future cash flows and the capital (solvency) of the investment. Our focus is not on companies that will somehow survive the crisis, but on those that will emerge from it stronger.

As an active owner, a regular and especially personal exchange (currently mainly by telephone or video conference) with our portfolio companies is particularly important to us. Through this, we gain an in-depth understanding of the current situation of the companies, enabling us to better assess how management handles crises and their consequences.

As an investor, we pay particular attention to good corporate management, which balances the interests of managers with those of stakeholders (especially the owners). Good managers not only have expertise but also a high degree of integrity. Their actions must be geared towards sustainable corporate success, not optimising personal interests. This is not only in the economic interests of shareholders, but also in the interests of the environment and society. Responsible corporate governance assumes social responsibility and creates good working conditions – which is an important factor, especially in the Coronavirus crisis.

As an investor, we pay particular attention to good corporate management, which balances the interests of managers with those of stakeholders (especially the owners).

We are in favour of the debate on GM reform, as digital formats are undoubtedly the future.

General meetings are changing

2020 was without a doubt a trend accelerator for digitalisation. Our habits, consumption and investment behaviour have changed rapidly. Naturally, business appointments and private get-togethers are now taking place digitally. Most of the general meetings (GMs) of German public companies were also held digitally in 2020 thanks to emergency Coronavirus legislation. Shareholders worldwide gathered virtually to be informed about company strategies and to decide on dividend distributions and capital measures.

Companies quickly came to like condensed programmes, lower costs and time to prepare for questions that investors had to submit up to two days before the GM, according to the emergency act. In turn, shareholder representatives and investors criticised the widespread curtailment of shareholder rights – especially the lack of rights to speak and ask questions during the meetings. This is a novelty, since general meetings usually live from the fact that executives have to answer directly to their investors.

The extension of the provisions covering virtual general meetings entered into force at the end of October 2020 and will apply until the end of 2021. Despite vehement attempts by shareholder representatives to uphold shareholder democracy, the provision has only been slightly improved. Requests for comment during the event are still not possible. This is a situation that must not become the rule.

We are in favour of the debate on GM reform that has been sparked, as digital formats are undoubtedly the future. They allow more shareholders access, as time-consuming and expensive travel is eliminated. However, we also firmly believe that in-person meetings are important for a balanced shareholder culture. Looking ahead, hybrid formats must be developed and legal certainty created to make general meetings viable – without restricting shareholder rights.

Exercising voting rights extract 2020

1 **Sunrise Communications Group AG** Zurich, Switzerland
Annual General Meeting of 8 April 2020

We abstained on the discharge of the members of the Board of Directors and of the Executive Committee, as some members apparently acted against the interests of shareholders in connection with the failed acquisition attempt by cable network operator UPC, and an individual vote was not possible.

2 **Walmart Inc.** Bentonville, Arkansas, USA
Annual General Meeting of 3 June 2020

After a detailed review, we voted in favour of four shareholder proposals, which we identified as points that should make Walmart a better company in the long term. The proposals included the following requests: reporting on the effects of single-use plastic bags, on standards for the use of antibiotics by suppliers, on the strengthening of prevention of workplace sexual harassment and the introduction of a policy on the inclusion of staff employed by the hour on the list of director candidates.

3 **Unilever PLC** London, United Kingdom
Extraordinary General Meeting of 21 September 2020

After a detailed review, we approved the merger of the two legal entities in the Netherlands and the United Kingdom under the umbrella of the British PLC.

Active owners as a strong corrective factor

Exercising our voting rights is an integral part of our investment process.

Shareholders have rights and obligations that they must fulfil, whether as an active asset manager, private investor or institutional investor. Exercising voting rights is an important corrective factor that can prevent incorrect decisions or manager egotism and promote long-term business success.

As a long-term investor, we handle the voting rights entrusted to us responsibly. We support measures that increase the value of a company on a long-term and sustainable basis in the interests of investors and vote against those that oppose this goal. Sustainability factors such as environmental and social aspects are explicitly taken into account when examining agenda items.

We exercise our voting rights as soon as we hold more than 0.5 per cent of the share capital of a company or when there are decisions to be made on significant agenda items. The voting rights are exercised by the portfolio manager, whose decisions are supported by an analysis by the relevant analyst and are consistent with the investment strategy of the relevant investment fund. Portfolio managers also work as analysts and thus gain an in-depth understanding of the investments, which benefits the quality of our voting.

In 2020, we voted at 33 ordinary and extraordinary general meetings. We abstained on eight agenda items and voted against the management recommendation on nine. We use our voting rights to enforce our position. Votes against management are a last resort for us when engagement activities do not bring about changes and the management of our companies does not act sustainably. A GM season with a low number of votes against management is a positive outcome for us and is a tribute to the quality of our investments.

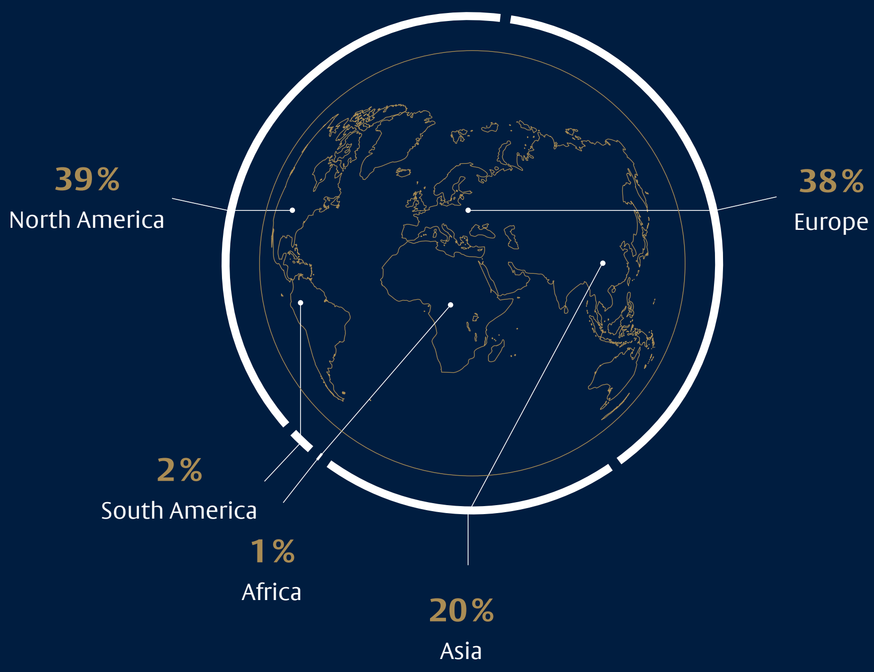
Engagement 2020

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

Our role as a trustee for our clients does not stop with the selection of the right investment. We consider it our duty to actively represent our clients' interests with portfolio companies. As a long-term investor, we therefore build up a good relationship with the management of the companies over many years. All engagement is in line with our active ownership process, which we set out in our Active Ownership Report last year.

In 2020, we held around 300 intensive engagement meetings with companies in 24 countries. These took place mainly at board level, but also with investor relations officers. Depending on the circumstances, they were mainly as telephone calls or video conferences. The discussions included the direct and indirect effects of the Coronavirus pandemic, ESG data reporting standards as well as minimum wages and supply chains. We have outlined two focus topics on the following pages.

Geographic distribution of our engagement activities



Good Governance

A matter of integrity

Good management is the basis for long-term corporate success. Responsible shareholders are therefore well advised to look very closely at the managers of “their” companies.

We are often asked whether the size of a fund is not an obstacle, because it limits the investment universe, thereby reducing the return potential. Yes, a large fund can no longer do everything, because some things simply do not seem to make sense from the perspective of the fund management – on the one hand.

On the other hand, the size enables an advantage that significantly overcompensates for this alleged disadvantage: as a rule, the larger a fund, the larger the number of holdings in individual companies. This facilitates fund managers gaining access to management, making exchange considerably easier.

Today, we are in close contact with the top management at almost all the companies in which we invest. Knowing how managers “tick” is a key part of assessing the respective investment, the associated risk-reward profile, and thus our investment strategy.

Both the Chairman and their colleagues on the Executive Board should regard themselves as the owners of the company.

Management quality is critical to success

The quality of a company’s management is critical to its long-term success. Management allocates scarce resources, determines the (hopefully) long-term strategy and shapes the culture of a company. It reacts to trends and crises and further develops the business model. We therefore have very high demands of those in charge.

Both the Chairman of the Board and their colleagues on the Executive Board should regard themselves as the owners of the company. Integrity and responsibility towards clients, the company and its employees, shareholders as owners and the social and economic environment are the hallmarks of good managers.

The better the contact with the management of a company, the more accurately a picture of the protagonists can be drawn. And this results in a more precise risk-reward analysis from an investor's point of view.

However, we are cautious when it comes to managers who consider themselves to be highly paid employees, who prefer to think in terms of quarterly figures, particularly with a view to personal success and their wallet.

Last year, we described in our Active Ownership Report how important it is to give a company's Executive Board the correct incentives. Long-term or sustainable success should be rewarded, but taking major risks at the expense of the company and to maximise your own benefit should not.

The Wirecard case as a cautionary example

We are also careful when it comes to all those who feel more comfortable in a talk show armchair than at the general meeting of their "own" company. Those for whom the next photo op or the next "home story" in magazines seems more important than the internal strategy meeting – because it could possibly increase their own market value. Their hubris favours expensive acquisitions because it serves to maintain a monument to them, but does not move the company forward; instead it raises debt in the long term and places a burden on the company.

The better the contact with the management of a company, the more accurately a picture of the protagonists can be drawn. What drives them? Where are their strengths and weaknesses? And this results in a more precise risk-reward analysis from an investor's point of view.

The Wirecard case has once again demonstrated the importance of management in assessing a company and the importance of integrity; however, it also illustrates how difficult it is to accurately assess those in charge. Many investors had to find this out the hard way.

An in-depth understanding protects but is not a guarantee

Deliberate fraud and its cover-up are not always obvious, at least not at first glance, and sometimes not even at the second or third glance.

We are therefore unable to judge what could and could not have been known in the Wirecard case. It would also be presumptuous to claim immunity from a similar case.

However, a thorough understanding of the companies and those in charge helps to at least limit the risks. Unfortunately, there is no guarantee.

When we looked at the Wirecard business model (which we found interesting in principle), we opted not to invest because we could not comprehend or simply did not understand some of the business areas. In retrospect, it was certainly the right decision.

Although we were not directly affected by the scandal, it encouraged us, for example, to urge the companies in which we invest to regularly change audit firms and to pay attention to overboarding and balance on supervisory boards. Details of this are laid down in our guidelines on the exercising of voting rights.

In 2020, we voted against the appointment of the proposed audit firm in seven cases at general meetings. We abstained four times. We discussed some supervisory board mandates with the companies in advance. We abstained from voting on three supervisory boards and voted against two candidates.

Even if we were not directly affected by the Wirecard scandal, we learnt our lessons from it.

Gold

Like insurance

Gold has demonstrated its ability to maintain value for thousands of years.

Gold is an essential component of our multi-asset portfolios. However, we share concerns regarding sustainability. This is why we focus exclusively on bars from suppliers with a sustainability seal and actively engage in improvements in the mining sector.

Gold is our insurance against the known and unknown risks of the financial system. It's like an insurance, which you are willing to pay premiums for but are all the more pleased to never have to make use of. No one can reliably predict what the long-term consequences of the central banks' extremely relaxed monetary policy will be – will inflation return?

Gold has demonstrated its ability to maintain value for thousands of years. It is not so much a "crisis metal" as many see it, but rather a currency – the currency of last resort. It is always in demand when people's confidence in the paper money system wanes.

By contrast, "gold stocks" – holdings in mining companies – are not a "real" gold rate. Although their share price depends on the gold price, like all other companies, they are subject to specific business risks. We also invest in mine operators.

We know about the complexity of gold mining, the possible damage that can occur – for surrounding ecosystems and social structures. Gold is sometimes a "dirty business".

Only bars from certified suppliers

This makes our responsibility as an investor all the more important. To protect the assets entrusted to us, we do not want to – and indeed cannot – do without gold, the currency of last resort. But we can make the highest possible demands of the mined gold and the gold miners – and we do.

For example, when it comes to the bullion we deposit for our assets, we only work with partners who are committed to the London Bullion Market Association's (LBMA) Responsible Gold Guidance. The purpose of this guidance is to prevent gold from contributing to systematic or far-reaching human rights violations, financing conflict, money laundering or financing terrorism.

As shareholders, we are strongly committed to the gold mining companies in which we invest ensuring that they set far-reaching targets to continuously reduce their environmental footprint and to conserve resources.

There must also be improvements in social and societal terms. We are therefore actively committed to transparency in the value chain and to worldwide compliance with international (ESG) standards – even in the most remote corners of the world.

Last year, we stepped up our discussions with "all" of our companies. In a letter from the Executive Board, we spoke out in favour of a common understanding of values and confirmed our support for existing measures and their further development. Established frameworks such as the Responsible Gold Mining Principles (RGMPs) of the World Gold Council (WGC), the Global Reporting Initiative (GRI) standards and the Task Force on Climate-Related Financial Disclosure (TCFD) already impose important requirements regarding sustainability aspects. For us as an investor, they are an important means of testing. If one of the mining companies in which we (want to) invest, refuses to respect these standards without good reason, this would be an exclusion criterion for us.

As shareholders, we are committed to ensuring that the gold producers in which we invest set wide-ranging targets so as to continuously reduce their environmental footprint.

Systematic environmental protection, water treatment ...

Environmental targets and requirements for decommissioning and renaturing must be systematically integrated into the organisation, and continuous improvements must be evident at companies in which we invest. This also includes responsible use of water and energy resources. Our holdings are working on gradually reducing their high consumption, using renewable energies and recycling recovered water to a

> We will not tire of using our influence as a shareholder for compliance with global sustainability standards.

large extent.
The independent Environmental Management Systems ISO standard (ISO 14001) provides an important framework and means of testing, which most of our holdings already implement to a large extent.

… plus occupational safety and the involvement of local residents

Mines are risk zones in which compliance with strict safety standards is essential. All of our holdings ensure a regular training of employees and continuous risk evaluation at the site level, and strive for the continuous improvement of occupational safety. They do so based on the ISO standard for Occupational Health and Safety (ISO 45001), which sets out requirements for an occupational safety management system.

Some mines are in countries with unstable governments. In this type of environment, management with integrity is of particular importance. All our holdings follow a zero-tolerance policy regarding corruption. They also operate under the Conflict-Free Gold Standard (CFGS), which ensures that no contributions are made to financing armed groups or human rights violations.

A respectful approach to the local community, exchange with and the involvement of the population is imperative in mining projects. It is important to us that all our holdings help local communities and invest in local infrastructure projects, healthcare and education systems.

The already visible success of our communication with the mine operators is both an incentive and a commitment for us. We will not tire of using our influence as a shareholder for compliance with global sustainability standards.


Know your Companies

Sustainability goals of selected positions

A management's innovation and foresight play an important role for us.

Digitalisation, changing consumer habits and climate change are huge challenges of our time. They require companies to be far-sighted, flexible and willing to face and adapt to changing circumstances. Factors including a management's innovation and foresight therefore play an important role for us.

Nestlé

CO_2- neutrality: In June 2020, Nestlé joined the United Nations "Race to Zero" initiative, which set itself the target of reducing its emissions to net zero by 2050 at the latest. To achieve this, Nestlé will drive change at all levels: in agriculture, the production facilities and the products themselves. By 2030, Nestlé intends to reduce its emissions by 50 per cent, by using new technologies among other things.

BASF

CO_2- neutrality: BASF has set itself the target of CO_2-neutral growth by 2030 by means of greater energy efficiency and the use of renewable electricity, among other measures. From 2030, the company wants to reduce its CO_2 emissions by means of new technologies. Within the framework of the Carbon Management R&D programme, intensive work is already being carried out on low-carbon production processes.

The six "Principles for Responsible Investment"

1 We will incorporate ESG issues into investment analysis and decision-making processes.

2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4 We will promote acceptance and implementation of the principles within the investment industry.

5 We will work together to enhance our effectiveness in implementing the principles.

6 We will report on our activities and progress towards implementing the principles.

Investor initiative

Sustainability requires transparency

Sustainable investment must be a matter of course for every investor.

We have been supporting the Principles for Responsible Investment (PRI) initiative since January 2019 and by means of our engagement we contribute to helping to focus financial market participants on the importance of responsible investing. The aim of the investor initiative is a better understanding of the impact of investment activities on environmental and social issues as well as issues of good corporate governance – ESG (Environmental, Social, Governance). There are six principles dedicated to this goal that must be respected and implemented by all members.

Two principles (principles 2 & 3) concern the aim that all members are active owners and include ESG issues in discussions with companies and make clear demands. Every year, the more than 3,000 signatories worldwide are required to report in detail on their activities in the field of responsible investing. PRI reporting is therefore the largest global reporting project on responsible investing.

In the first year of our membership, we already decided to undertake much of the reporting and to report extensively on our investment strategy and active ownership activities. Regular reporting is not mandatory until the second year. In our first reporting, we achieved an A rating in the core modules Strategy & Governance, Listed Equity Corporation and Active Ownership (score range: E to A+). In 2021 , we will undertake our first mandatory reporting and provide detailed insights into the requirements and results according to PR evaluation.

Signatory of:

PRI Principles for Responsible Investment

Conclusion

We firmly believe that sustainable investing should be a matter of course for any active and long-term oriented investor. However, the financial industry is slowly approaching a common understanding of sustainability. In 2021, the first rules will enter into force that require financial market participants to disclose their strategies for responsible investing and their approach to sustainability. Transparency is an important component in reaching a consensus on the central issue: what is a sustainable investment – and what is not?

For example, Regulation (EU) 2019/2088 of the European Parliament and of the Council requires financial market participants to disclose information on their sustainability strategy and their approach to risks in their investment strategy from 10 March 2021.

However, regulation of the financial markets alone is not productive – and over-regulation must be avoided. The enormous challenges of climate change, for example, can only be met with an effective climate policy, new technologies and a thriving economy.

If policy provides the right framework, i.e. decides on a clever mix of relief and charges, then – and only then – investors' money will flow in the desired direction.

Sustainability cannot be prescribed alone; it must be practised and fully understood.

Sustainably successful companies have a value system based on personal responsibility and integrity.

Environmental protection, good social standards and corporate governance are worthwhile goals for a sustainable world. Companies need to align their product offering and overall corporate strategy with this to be successful in the long term. A regulation that exceeds methodical limits in its provisions jeopardises its own goals. The world will improve if environmental and social standards improve. This requires a reliable framework and appropriate incentive structures.

For us, sustainability cannot be measured using rigid templates. Sustainably successful companies have a value system based on personal responsibility and integrity. We see ourselves as a constructive sparring partner, who appropriately points out problems, makes meaningful suggestions and supports management in implementation. The exchange with the management of our holdings and the exercising of our right to vote are important components of our work, which have an impact on the quality of our investments and make a significant contribution to the success of an investment.

Sustainability cannot be prescribed alone; it must be practised and fully understood. Only in this way can it have a sustainably positive effect on investment culture.

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Stanislaus Thurn und Taxis is responsible for ESG research activities at Flossbach von Storch. In addition to this role, Thurn und Taxis is an analyst for the consumer staples sector. This dual function reflects our comprehensive ESG approach. With eight years of professional experience and various positions in the capital market business, Thurn und Taxis has the necessary practical knowledge to support and develop ESG activities in the interests of our owners and investors. Thurn und Taxis has a Master of Science from the London School of Economics and Political Science and a Bachelor of Science from the University of Maastricht.

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Since October 2019, Frederike von Tucher has been Project Manager in the Corporate Communications department of Flossbach von Storch. At Flossbach von Storch, von Tucher is responsible for the sustainability strategy and the company's commitment to the internationally recognised UN Principles for Responsible Investment (PRI). Over the past 14 years, the cultural manager graduate has spent her professional career in various positions and sectors in the field of communication.

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