

# **Exclusion Policy**

## **of the Flossbach von Storch Group**



Flossbach von Storch

“Sustainability is a characteristic of long-term oriented investors and therefore of a long-term oriented investment strategy. A company can only achieve lasting success if it serves its customers well, motivates its employees, treats its business partners fairly, makes adequate investments, pays taxes, and avoids harming the environment. That is why we do not just look at company business models and balance sheets, but also at the people behind the company.”

**Dr Bert Flossbach**

Founder and Board Member of Flossbach von Storch SE

*Signatory of:*



## PRELIMINARY REMARKS

The Exclusion Policy of the Flossbach von Storch Group (Flossbach von Storch SE, Flossbach von Storch Invest S.A. (FvS Invest S.A.) and the other subsidiaries, also “FvS Group” or “Flossbach von Storch”) describes how exclusion criteria are taken into account in the management of the investment funds managed by FvS Invest S.A. (the “Funds”) and in the financial portfolio management of Flossbach von Storch SE and are fully integrated into the investment policy.

The Exclusion Policy can be found on the FvS Invest S.A. ([www.fvsinvest.lu](http://www.fvsinvest.lu)) website and on the Flossbach von Storch SE ([www.flossbachvonstorch.de/en/](http://www.flossbachvonstorch.de/en/)) website.



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## 1 SCOPE OF APPLICATION

This Exclusion Policy applies to Flossbach von Storch's own mutual funds as well as to the investment funds and mandates managed by Flossbach von Storch that agree to the application of this guideline.

## 2 EXCLUSION CRITERIA

### 2.1 Minimum exclusion criteria

The Flossbach von Storch Group applies the following minimum exclusion criteria, which exclude investments in companies with certain business models. Investments in companies with the following turnover thresholds are excluded:

- > 0% controversial weapons,
- > 10% production and/or distribution of armaments,
- > 5% tobacco production,
- > 30% production and/or distribution of thermal coal.

Exclusion also applies to companies:

- with serious violations (without a positive perspective) of the principles of the UN Global Compact (see below) and
- for state issuers that are considered "not free" according to the Freedom House Index.

### 2.2 Definitions of selected exclusion criteria

#### Controversial Weapons

Flossbach von Storch is committed to supporting and complying with conventions aimed at banning the production and trade of controversial weapons (CW). Investments in companies that generate revenue from controversial weapons are excluded.

According to prevailing opinion, controversial weapons are weapons systems which are indiscriminate, cause disproportionate suffering, pose a danger to the civilian population long after a conflict has been resolved and consequently are outlawed by the international community.

Multiple international conventions, European legislations and national statutory provisions of various countries define and ban the manufacture, purchase, stockpiling, transfer, and use of the following types of weapons:



- the Convention on Cluster Munitions, which was signed in 2008 and came into force in 2010 banning cluster munitions (the “Oslo Convention”),
- the Convention on the Prohibition of Anti-Personnel Mines, which was signed in 1997 and came into force in 1999 prohibiting the use, stockpiling, production, and transfer of anti-personnel mines and is about their destruction (the “Ottawa Treaty”),
- the 1925 Geneva Protocol and the Biological Weapons Convention, which was signed in 1972 and came into force in 1975, prohibits the development, manufacture, and stockpiling of biological weapons,
- the Chemical Weapons Convention, which was signed in 1993 and came into force in 1997, prohibits the development, manufacture, stockpiling and use of chemical weapons and is about the destruction of such weapons,
- the Treaty on the Non-Proliferation of Nuclear Weapons, which was signed in 1968 and came into force in 1970, including the Additional Protocol of 1998 and the Treaty on the Prohibition of Nuclear Weapons of 2017.

Accordingly, the following types of weapons are considered controversial weapons within the meaning of the Exclusion Policy of the Flossbach von Storch Group:

- cluster munitions
- anti-personnel mines / land mines
- chemical, biological, and nuclear weapons
- less-lethal explosive devices
- enriched uranium
- incendiary bombs.

### **Production and/or distribution of armaments**

Armaments include weapons systems, components and supporting systems and services that are primarily or exclusively for military use. Dual-use goods, which can be used for both civilian and military purposes, are not included in this category.

### **Mining and/or distribution of coal**

The exclusion covers the mining and/or distribution of thermal coal (steam coal), including lignite, bituminous coal, anthracite coal and steam coal. Companies that generate revenue from electricity generation from coal, metallurgical coal and/or intra-company coal trading are not included in this category.

### **Principles of the United Nations Global Compact (UN Global Compact or UNGC)**

The principles of the UN Global Compact are the 10 principles of the United Nations Global Compact from the categories of human rights, labour standards, environment, corruption prevention as well as



the Sustainable Development Goals (SDGs). The UN Global Compact or other equivalent organisations do not keep an official record of whether and to what extent a company violates the principles. Companies can sign the principles of the UNGC and still commit violations.

In order to fulfil the exclusion obligation in the event of “serious violations of the UNGC without a positive outlook”, an internal analysis is carried out to assess the extent to which a company violates the principles of the UNGC with regard to controversies that arise and to evaluate whether a positive outlook exists.

If serious violations are identified in a company, the allegations are analysed further, and a dedicated active ownership process is initiated. The focus is on the company’s efforts to improve the situation. If there is no prospect of an improvement of the circumstances leading to the serious violation, the company is excluded from the investment universe, or a divestment will take place.

- Particularly serious violations of the UNGC principles are proven incidents that have already caused considerable to irreparable damage to people and/or nature and/or harbour a considerable risk of such damage.
- A positive outlook exists if the company is endeavouring to clarify the situation and has announced or already initiated (first) measures to rectify the incidents.

In addition, the analyses and assessments of the MSCI ESG research on UNGC violations are evaluated. They can provide useful information on controversies and critical ad-hoc events, but they never replace our own analyses.

## 2.3 Special features

The Flossbach von Storch Foundation Growth sub-fund and the Flossbach von Storch Foundation Defensive sub-fund reflect a broader consensus of values in a non-profit sense. The investment policy defines further categories of companies in which investments may not be made. Special features of other specific investment funds can be found in the respective sales prospectuses and are published on the respective country-specific websites of the Flossbach von Storch Group at [www.fvsinvest.lu](http://www.fvsinvest.lu) and at [www.flossbachvonstorch.de/en/](http://www.flossbachvonstorch.de/en/).

The composition of the special funds and mandates managed by Flossbach von Storch can be adapted to the clients’ sustainability criteria. This enables ethical standards to be customised. Additional negative lists formulated during this process are mainly based on the exclusion of certain securities, sectors or even countries. The reporting or disclosure of specific characteristics, such as the CO<sub>2</sub> footprint, can also be provided at mandate level.



## 2.4 Data sources and data methodology

### Data sources

MSCI ESG research data is used to create and review the exclusion criteria used. Regarding the exclusion of controversial weapons, an exclusion list is also stored and checked based on MSCI ESG research data, the criteria listed under the section “Monitoring of ecological and social characteristics” and by incorporating the Norwegian sovereign wealth fund (Statens pensjonsfond) blocked list.

The exclusion criterion for serious violations of the principles of the UN Global Compact without a positive outlook is determined by an in-house assessment as part of the ESG analysis. MSCI ESG research data is used for verification and comparison purposes.

The current rating of the Freedom House Index, the so-called “Global Freedom Status”, is used for exclusions in relation to state issuers.

### Data methodology

For the exclusion of controversial and nuclear weapons, minor shareholdings are also included, so that shareholdings and shareholders with an ownership of 20% or more receive the valuation of the subsidiary.

For the exclusions of armaments, tobacco, coal and, where applicable, alcohol and gambling, major shareholdings and controlling shareholders are added so that shareholdings and shareholders with an ownership of 50% or more are assigned the valuation of the subsidiary.





## 2.5 Monitoring

Compliance with the exclusion criteria is monitored both pre-trade (before an order is executed) and post-trade (after an order is executed) with the help of investment compliance rules. Compliance and turnover thresholds are monitored based on external ESG research data (MSCI ESG Research data) and in-house analyses.

The principles of the UN Global Compact are not a certified standard or regulatory instrument, so the UN Global Compact initiative does not keep an official register of whether and to what extent a company is in breach of the principles. In order to fulfil the mandatory exclusion in the event of serious violations of the UNGC principles, serious violations are monitored and evaluated as part of the in-house ESG analysis. Only companies that, according to our in-house ESG analysis, do not have a positive outlook for dealing with the violations identified as serious, are excluded. For verification purposes, data from MSCI is stored in the portfolio management system as a source of comparison. If MSCI classifies a company as a “Fail” regarding violations of the UN Global Compact principles, and Flossbach von Storch comes to a different classification of the incidents, a detailed analysis of the incidents and a justification must be submitted to Risk Management by the ESG analyst team.

If the internal analysis shows that there are “serious violations without a positive outlook”, the investment must be divested in a market-sensitive way, or the company must be excluded from the investment universe.

The current assessment of the Global Freedom Status, which is generally updated annually, is always used to monitor the exclusion of state issuers that are considered “not free” according to the Freedom House Index.

The “controversial weapons” exclusion criterion is also monitored based on MSCI data. In addition, a monthly comparison is made with the corresponding exclusion list of the Norwegian sovereign wealth fund (Statens pensjonsfond).

## 3 REVIEWING THE EXCLUSION POLICY

This Exclusion Policy is subject to regular review and will be updated as necessary depending on the development of business activity and the adjustment of strategies for implementing sustainability criteria and risks. The current version of the Sustainability Policy is published on the FvS Invest S.A. [www.fvsinvest.lu](http://www.fvsinvest.lu) website (or the respective country-specific Flossbach von Storch Group website) and on the Flossbach von Storch SE <https://www.flossbachvonstorch.de/en/> website.

