ACTIVE OWNERSHIP
REPORT 2023

Active Ownership

Flossbach von Storch


Know your Companies

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/en.

Active Ownership Process

Divestment

PHASE 1

Identification of conflicts that permanently impair the value of the company

PHASE 6

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

PHASE 2

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

PHASE 5

Observation and **evaluation** of the changes achieved

PHASE 3

Development of a meaningful roadmap for resolving conflicts

PHASE 4

Constructive discussion of the roadmap with the Executive Board

* Only relevant for Flossbach von Storch mutual funds

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. 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 0.25 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.

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

Foreword

As a long-term investor, we are committed to ensuring that companies operate sustainably.

Companies in which we invest have to undergo an extensive analysis process. We endeavour to weigh up the risk-reward profile of an investment as precisely as possible using our own in-house analysis tools. In principle, our portfolio managers can only invest in companies that have undergone this process. In this way, we ensure that we have formed a quality assessment of each company – as a basis for our investment decision.

We are convinced that sustainability factors must be considered as a "natural" part of the analysis – and that they must not be limited to individual assets or specialised ESG strategies. Our ESG analysis is therefore an integral part of the selection process; we identify ESG drivers that could have a significant long-term impact on a company's business performance.

What's more, as a long-term investor, we are committed to promoting sustainable business practices at companies and encouraging them to formulate specific climate targets and comply with international standards.

We expect each of our companies to:
– make its contribution to the Paris Climate Agreement
– and stand up for universal values.

To highlight the importance of this issue, in 2022 we made a commitment as part of our company-wide investment strategy – and this applies to all our mutual funds – to make use of our opportunities as an active and responsible owner in the event of serious shortcomings and to work towards good corporate governance.

Reliable information is required to identify shortcomings as part of our ESG analysis. One focus of our activities in the past year was therefore on increasing data and information transparency. In the following Active Ownership Report, we report on the findings and progress of our work to support companies on their path to greater sustainability.

Data transparency

In search of clarity

Data is the topic of the moment. It trains algorithms and artificial intelligence, forms the basis for everyday and political decisions and is the foundation of research and innovation. Accordingly, it is also an important basis for investors to make decisions in the context of sustainability. Our ESG analyses are also based on data. We not only collect the data ourselves, but also engage in targeted dialogue with the companies where there are gaps. This is the only way we can best understand the data and draw the right conclusions from it.

Understanding data and putting it in the right context is vital for us.

As a long-term investor, we expect our companies to act with foresight and responsibility, not only with regard to their business partners, but also with regard to their environmental and social footprint. Data is an important indicator here in two respects: on the one hand, the publication of data enables a solid assessment of both the negative and positive impacts of companies on people and nature; on the other hand, the transparency and level of detail of the published data is a good indicator of whether companies are aware of their responsibility – and act accordingly.

As part of our in-house ESG analyses, we use relevant environmental sustainability factors (including greenhouse gas emissions, waste and water) to assess the extent to which the activities of "our" companies have a negative impact on the environment – and how they deal with it. Data helps with categorisation, provided it is reliable, comprehensible and correctly interpreted. This applies all the more to ESG data, which often does not yet follow a uniform standard and has often only been collected by companies for a few years.

It is therefore of central importance for us to understand the data and its possible interpretations and to place it in the right context. To this end, we collect and document our own data, which is reported directly by the companies. This ensures high data quality and enables us to understand the data collection or estimation methods used by the companies in the best possible way.

The reasons for a reduction or increase in key figures are manifold and must be identified.

Rising key figures equals poor performance?

Our ESG analysts put the results into context. This is the only way we can understand how they came about. For example, if a company reports a significantly lower amount of direct greenhouse gas emissions compared to the previous year, there may be various reasons for this: more energy efficiency, for example, which would be very pleasing, or simply more employees working from home. Conversely, higher greenhouse gas emissions could be due to an acquisition or to more extensive data collection in which smaller locations were included for the first time.

Negative trends therefore do not automatically indicate a lack of implemented reduction measures. A simple change of method or an expansion of the field of observation can quickly lead to an increase in the data without a real increase in greenhouse gas emissions having taken place. A good example of this is the analysis of the Scope 3 values, which we explain in more detail on page 11.

In addition, there are still no internationally binding standards for companies in the area of ESG reporting. In a relatively young reporting field such as ESG data, methodological changes or subsequent corrections to data are still common, especially if a company is continuously working on improving data quality.

The reasons for a reduction or increase in key figures are therefore manifold and must be identified. We therefore take a critical view of data that is not scrutinised and used in investment decisions. Accordingly, we do not work with threshold values that are supposed to indicate positive or negative developments, but rather consider and evaluate each company individually.

This level of detail requires a great deal of effort; however, it is essential for us to obtain as precise a picture as possible of "our" companies and their approach to ESG issues and thus to be able to recognise potential risks. We work with a concentrated and largely constant investment universe. This gives us enough time for detailed analyses and the opportunity to work towards improvement in dialogue with the companies.

Active dialogue helps us to understand

Ultimately, any assessment of sustainability factors remains subjective.

As an active owner, we are committed to ensuring that companies report transparently on their relevant environmental and social impacts. If, as part of our analysis, we find that companies do not present potential opportunities and risks relating to their environmental and social footprint comprehensively enough, do not take existing standards into account or do not disclose the calculation methods comprehensively enough, we seek to engage in dialogue.

In 2023, we contacted 69 companies to work towards improving data quality (see examples on page 13). In addition, discrepancies between individual reports were identified at 14 companies. We have pointed this out to the companies and initiated a correction. Discussions are still ongoing with only 21 companies; all other requirements and issues were clarified in discussions with the companies.

To emphasise the relevance of data, we joined the international CDP in 2023. The non-profit organisation promotes the disclosure system for companies, cities and countries with regard to greenhouse gas emissions, water and forest risks. On the one hand, the initiative is an important source of information for us, as most of the companies in our investment universe report ESG data to CDP. On the other hand, the initiative is committed to improving data transparency for companies on behalf of the signatories.

Clarity is an illusion

Discussions on increasing data transparency currently still have an environmental focus, as there are far fewer standardised data points for considering the social footprint. The assessment of companies' treatment of employees and international standards is therefore increasingly focused on a detailed qualitative analysis, for which we have developed our own methodology.

Ultimately, every assessment of sustainability factors remains subjective. This is because there is no unambiguous answer when it comes to sustainability. This also applies in the general investment context. There may be a consensus among analysts – but whether a company is categorised as a promising investment or not depends on the investment philosophy.

Data transparency

Case study

Scope 3 emissions are the most difficult emissions to record and influence.

Improving the data transparency of Scope 3 values

As part of our engagement activities, we are increasingly focusing on companies with deficits in the area of greenhouse gas reduction. However, we currently still exclude indirect emissions (Scope 3) from the investment and participation process. This is primarily due to the special aspects of data collection and interpretation, which do not yet provide a solid basis for a reliable assessment.

Nevertheless, we are already analysing the issues in detail as part of our ESG analysis, and last year we saw encouraging progress in the availability of data on Scope 3 issues. More than 74 per cent of our investable companies now publish Scope 3 data. On closer inspection, however, there are still significant shortcomings in data quality. The reason for this lies in the complexity of the calculation, which poses a major challenge for many companies and makes standardised recording difficult.

The challenge of indirect emissions

Scope 3 emissions are greenhouse gases that are not produced by the company itself, but lie outside the company's direct sphere of influence, e.g. in the upstream or downstream supply chain. These emissions often make up by far the largest proportion of a company's total greenhouse gas emissions and are therefore an important indicator of the overall footprint. At the same time, however, they are also the most difficult emissions to record and influence.

According to the Greenhouse Gas Protocol, the standard work on greenhouse gas accounting, there are 15 categories of Scope 3 emissions that can be relevant for a company. The categories include, for example, purchased goods and services, business trips and employee commuting or the use of products sold. While the recording of business trips is a comparatively simple exercise for companies, calculating the greenhouse gases caused by the production of purchased goods quickly becomes complex. Companies therefore choose very different approaches for recording. One company may explicitly request emissions from its suppliers, while another uses industry averages. Others, on the other hand, completely exclude categories from the recording of their Scope 3 values due to excessive complexity.

This means that not only are different calculation methods used in the assessment, but also different numbers of categories are recorded. A low Scope 3 value therefore does not necessarily indicate a low footprint. Here, too, it is important to take a close look at the data and interpret it.

Netflix, for example, does not yet include in its Scope 3 emissions the power consumption of the end devices on which the series and films are streamed. With around 260 million subscribers who stream on average around two hours a day, this would add a significant amount to the Scope 3 balance of the largest streaming service. Such an increase can quickly be interpreted negatively for the company, even if the influence of Netflix, for example on the purchase of renewable energy by end consumers, is negligible.

Companies have to deal with their indirect effects.

Responsible behaviour includes all stakeholders

For us, it is important that companies also consider their indirect impacts and – building on this – develop realistic reduction measures with the relevant stakeholders. We are currently observing that many companies are revising their Scope 3 accounting and expanding it to include additional categories thereby improving data quality. As an active owner, we will continue to drive this positive development forward.

Excerpt of engagement activities
Data transparency

Danaher

US company Danaher, which specialises in medical technology, has significantly developed its climate strategy in recent years. The most recent revision (2022) included specific Scope 1 and 2 targets, which were formulated based on the requirements of the SBTi – a level of ambition that we rate positively.

The Science Based Targets initiative (SBTi) is an international NGO that enables the private sector to harmonise greenhouse gas reduction targets with scientific criteria and have them formally validated. The requirements ensure a level of ambition that meets the criteria of the Paris Climate Agreement and sets reporting requirements for a full accounting of the underlying footprint. This includes, for example, the consideration of Scope 3 emissions.

Despite the positive development of Danaher's sustainability reporting, there were still some uncertainties for us to discuss. These included, for example, the lack of Scope 3 coverage. In an initial video call with the IR team, Danaher explained to us that they are currently evaluating the most relevant Scope 3 categories and are looking into future reporting and SBTi-compliant targets. This positive outlook resulted in a formal commitment to SBTi and net-zero targets across the entire value chain (including Scope 3) at the end of February 2024, which we consider to be the right signal. We will continue to monitor the official validation and achievement of the target path in the future.

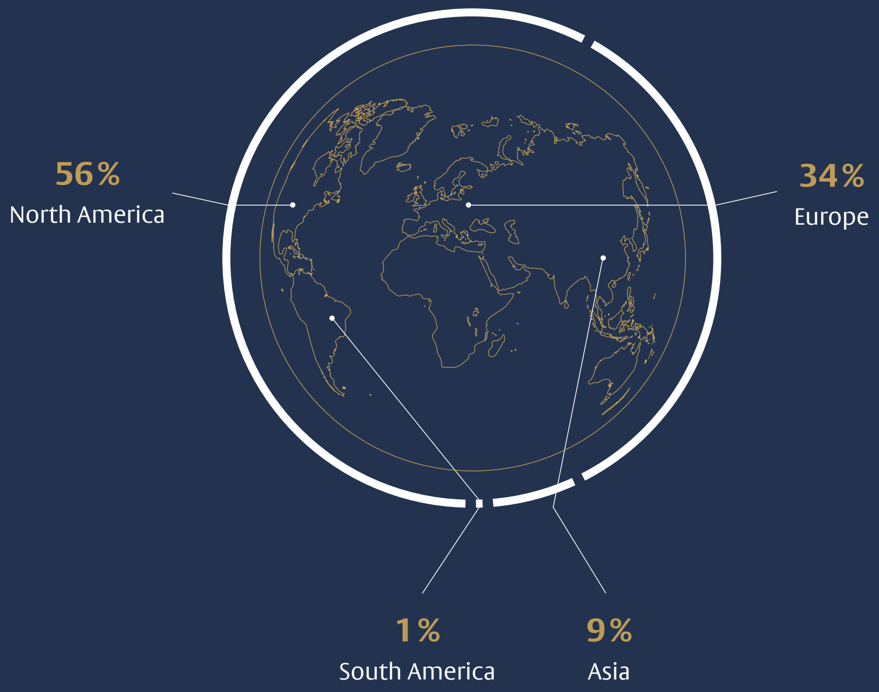
JAB Holdings

Reporting and target setting on sustainability issues are a particular challenge for holding companies whose main purpose is to hold investments in other companies. Together with the holding company JAB, which holds investments in companies in the food and catering industry, among others, we discussed ways in which a parent company can exert influence. JAB has chosen a direct approach: it is in regular dialogue with its portfolio companies and has set itself the goal of having 80 per cent of its holdings set SBTi-validated targets by 2025 and 95 per cent by 2030. JAB has not yet reported Scope 3 emissions for investments in its own reporting, but plans to expand this in future. This is a promising approach that we support and will discuss with other holdings.

Engagement 2023

We held almost 300 discussions with companies in 22 countries in 2023. These took place mainly as individual discussions at board level, but also with the investor relations and sustainability managers. In the area of governance, we primarily discussed business developments and corporate strategies as well as remuneration systems. As part of our commitment to environmental and social aspects, we have expanded our dialogue on greenhouse gas emissions and international standards in addition to the commitments to promote data transparency described above.

Geographical distribution of our engagement activities (key areas)



Reduction of greenhouse gas emissions

In our investment universe, 38 companies (12 per cent) have not yet set any goals for reducing greenhouse gas emissions. Further research has shown that seven companies plan to publish reduction targets in the near future. We are monitoring developments and compliance with these announcements.

We contacted 29 of the remaining companies in order to encourage them to set long-term climate targets. Most of the companies were able to demonstrate that they are addressing the greenhouse gas emissions of their business activities and have already introduced individual reduction measures. Our engagement activities are continuing in these cases in order to work towards binding reduction targets.

As part of our in-house ESG analysis, we assess the degree of climate initiatives of "our" companies. The following distribution includes the assessment of all companies in our investment universe. "Yes" covers companies with targets in line with the Paris Climate Agreement. "Not in line" covers companies with climate targets that are not yet in line with the Paris Climate Agreement. "No" covers companies that have not yet published their reduction targets.


ESG = active

Companies must take the interests of all stakeholders into account.

Complying with international standards

It is important to us that companies orientate themselves towards international value standards and implement processes to ensure compliance with them. In doing so, we focus on reviewing the principles of the United Nations Global Compact (UNGC), the UN Guiding Principles on Business and Human Rights, the ILO core labour standards and the OECD Guidelines for Multinational Enterprises. These international standards cover important areas such as the abolition of child and forced labour, occupational safety and consumer protection or the fight against corruption and bribery.

As part of our ESG analysis, we check whether sufficient measures have been taken in the individual companies. In doing so, we focus on the areas relevant to the company (see AOR 2022). Around 75 per cent of our companies currently meet our standard for monitoring processes to ensure compliance with the aforementioned standards. Furthermore, almost 90 per cent of the companies in our investment universe have a good human rights policy and almost 97 per cent have implemented adequate anti-corruption and bribery policies.

We have started to engage with 22 companies whose monitoring processes are not yet adequate according to our methodology. The discussions are ongoing and we will gradually extend this engagement in 2024 to other companies that have deficits in the area of international standards. The aim is to work towards improvements and reduce ESG risks.

Excerpt of engagement activities
Climate goals

Roper Technologies

The US conglomerate, which primarily consists of software companies, published Scope 1 and 2 emissions for the first time in its 2022 Sustainability Report, but has not yet set itself any climate targets. We contacted the company to find out more about its internal sustainability strategy. Roper assured us that they are aiming for climate targets in line with the SBTi initiative. However, as they are still at the beginning of the evaluation, they have not yet made a binding statement about a publication period. Roper's business model is generally not very emissions-intensive; it is therefore of primary importance to us that the company addresses the issue in principle and endeavours to take measures within the scope of its possibilities. We do not currently see any urgency due to the low relevance of the issue. We will remain in contact with Roper to monitor current developments and follow up on the announcements.

The Charles Schwab Corporation

The US financial services company has not formulated any climate targets, but reports Scope 1 and 2 emissions via CDP. We initiated an enquiry to find out more about their internal plans to reduce greenhouse gas emissions. Schwab assured us that they are working on a project basis to gradually reduce their direct greenhouse gas emissions. This includes measures such as saving energy and switching to renewable energies. As Schwab's business model is fundamentally not energy and emission-intensive, the reduction opportunities are limited to a small number of emission sources. There are currently no plans to formulate climate targets. We will continue to have discussions with Schwab to ensure that further reduction measures are taken where possible.

Excerpt of engagement activities
International norms and governance

Volkswagen

We have been taking a critical look at the car manufacturer for some time with regard to 1) "good corporate governance" and 2) "minimum social standards". As we only hold Volkswagen bonds, it is not possible for us to exercise voting rights, but we have nevertheless tried to exert influence through engagements and public statements.

1. We have long criticised the fact that the company's decision-making and monitoring processes are too complex. In addition, the distribution of voting rights results in a disproportionate influence in favour of the two dominant shareholders – the Porsche-Piëch family and the state of Lower Saxony. This imbalance in control does not allow management to take the necessary steps to ensure the long-term success of the company. We last expressed our position in a Financial Times article on 27 December 2023.

2. VW is involved in a plant in China that has repeatedly been the subject of allegations of forced labour by Uyghurs in recent years. Although there was no concrete evidence to confirm the allegations, we took them very seriously. In direct communication with Volkswagen, we checked whether sufficient monitoring processes were in place and supported the implementation of an external audit. Although the outcome of the audit in autumn 2023 was positive – no evidence of forced labour was found – the lack of independence of the audit was criticised, meaning that we did not have sufficient grounds to consider the allegations resolved. At the start of 2024, new information became known that provided the first concrete indications of possible forced labour during the construction of a test track at the joint venture. This is a development that prompts us to keep up the pressure on Volkswagen to clarify the allegation and bring about any necessary consequences.

Voting 2023

In 2023, we voted at 70 ordinary and extraordinary Annual General Meetings in nine countries. The following topics on which we voted against the management's voting items are particularly noteworthy due to their frequency and relevance:

- At 12 of our portfolio companies, we voted against the remuneration of the Executive Board as we did not consider the amount or the remuneration structure to be appropriate.
- Nine of our portfolio companies proposed amendments to the Articles of Association in connection with the possibility of holding virtual general meetings and/or the possibility of virtual participation in the general meeting by Supervisory Board members. In some cases, we opposed these amendments if, in our opinion, the proposals did not strike a sufficient balance to safeguard shareholders' rights.

The exercise of voting rights is an integral part of our investment process and an important tool to express our position. To emphasise the importance of this, in 2023 we have lowered the shareholding threshold above which we exercise our voting rights in all cases. As a rule, we now exercise our voting rights as soon as more than 0.25 per cent (previously 0.5 per cent) of a target company's share capital is held and also whenever significant agenda items are put to the vote.

Voting History

Number of Annual General Meetings in which we participated

2020	2021	2022	2023
33	48	69	70

Geographical distribution of our engagement activities (key areas)

Extract of exercise of voting rights 2023

Alphabet Mountain View, California, USA

Annual General Meeting on 2 June 2023
We voted against the amendment to the 2021 share plan and also against the Executive Board remuneration. The aim of the amendment to the 2021 share plan was to increase the originally agreed share-based remuneration for an extended group of people (including employees and service providers). Due to the already high costs of the previous programmes, we rejected this increase. In addition, we do not consider the level of Executive Board remuneration to be appropriate. On a positive note, an ESG component was included in the Executive Committee's variable remuneration in 2022.

Bechtle AG Neckarsulm, Germany

Annual General Meeting on 25 May 2023
We voted against the amendments to the Articles of Association regarding the organisation of AGMs. We view the period of five years for holding digital AGMs as critical. In addition, it was not clearly formulated in which cases the Executive Board may organise a virtual Annual General Meeting. Furthermore, we are of the opinion that supervisory board members should always be present at physical AGMs in particular. The reasons cited by Bechtle, such as unreasonable travelling time, do not constitute a fundamental excuse for not physically attending, especially as AGM dates are scheduled well in advance and can be taken into account in the general travel plans of Supervisory Board members. Each Supervisory Board member should be able to ensure this when accepting the mandate, also in view of the Supervisory Board remuneration granted.

Novartis Basel, Switzerland

Extraordinary General Meeting on 15 September 2023
We have approved the spin-off plans of Sandoz and the generics and biosimilars business by Novartis. We consider this to be an appropriate step for the intended focusing of the Group on the development of innovative, patent-protected drugs. We have also approved the capital reduction proposed in the course of the spin-off.

ACTIVE OWNERSHIP
REPORT 2023 – APPENDIX

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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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Dated 31 December 2023

Flossbach von Storch