



COMPANY POLICY ON SUSTAINABILITY

DJE KAPITAL AG

Company-level strategies of DJE Kapital AG for managing sustainability risks and for considering adverse sustainability impacts in the investment decision-making process

1. INTRODUCTION

As a financial market participant within the meaning of Article 2 No. 1 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on Sustainability-Related Disclosures in the Financial Services Sector (hereinafter the “Disclosure Regulation”), DJE Kapital AG is legally obligated to ensure transparency with regard to:

- its company-level strategies for managing sustainability risks¹, and
- its consideration of adverse sustainability impacts in the company-level investment decision-making process².

The information pertaining thereto may be found within this document. Based on the investment process newly anchored at DJE Kapital AG as of August 2022 advertising of ecological or social features of the funds managed by DJE Kapital AG will be implemented for almost all products. The corresponding information is published for these funds in accordance with Art. 10 of the Disclosure Regulation, which can be obtained under the respective fund/sub-fund.

a) Our guiding principle: Responsible Investing

Human rights, responsible corporate governance, protection of our planet and our environment – these themes are of fundamental importance to DJE Kapital AG.

Our world can only overcome these pressing challenges, in particular the existential problem of climate change, if everyone pulls together. Current political commitments are not yet adequate to limit the rise in global warming to the target maximum of 2° C.

As a financial market participant, however, we can contribute towards this goal by seeking to invest only in those companies that pay sufficient attention to important environment, social and governance (ESG) factors, thereby also reducing the sustainability risks of our investment holdings.

b) What do we mean by “sustainability risk”?

A “sustainability risk” within the sense of Article 2 No. 22 of the Disclosure Regulation means **“an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.”**

More specifically, such ESG factors may impact the asset position, financial condition and/or investment performance of funds or portfolios managed by DJE Kapital AG as well as the general reputation of DJE Kapital AG. Moreover, sustainability risks may have a significant bearing on all customary types of investment risk (market risk, liquidity risk, counterparty risk and operational risk) and may be a co-determining factor in the significance of these risk types. Furthermore, the companies in which investments are made may be subject to sustainability-related risks such as physical business risks arising from climate change through extreme temperatures, rising sea levels, and other such impact factors.

c) What do we mean by “sustainability factors”?

“Sustainability factors” within the sense of Article 2 No. 24 of the Disclosure Regulation mean *“environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.”*

d) What are “ESG factors”?

ESG refers to factors such as environmental, social and corporate governance. The abbreviation is derived from the English terms **“E**nvironmental”, **“S**ocial” and **“G**overnance”.

ESG factors may relate to the following topics, among others, as examples:

Environmental factors

- Protection against climate change
- Adaptation to climate change
- Protection of biological diversity
- Sustainable use and protection of water and marine resources
- Waste prevention, recycling, and transition to a circular economy
- Reduction and avoidance of environmental pollution
- Protection of healthy ecosystems
- Sustainable land use

Social factors

- Compliance with recognised labour standards (no child labour or forced labour, no discrimination)
- Compliance with occupational health and safety standards
- Adequate compensation, fair working conditions, diversity, and opportunities for training and further education
- Freedom of assembly and of labour unions
- Assurance of adequate product safety and health protections
- Same requirements demanded of other companies in supply chain
- Inclusivity and consideration of the interests of communities and societal minorities

Corporate governance factors

- Tax compliance
- Anti-corruption measures
- Sustainability management from the top
- Sustainability-based executive compensation
- Enablement of whistle blowers
- Employee rights
- Data protection
- Transparency and disclosure

1) Per Article 3 of the Disclosure Regulation

2) Per Article 4 of the Disclosure Regulation

e) Integration of sustainability factors and ESG factors in the investment process of DJE Kapital AG

In 2018 DJE Kapital AG became a signatory to the United Nations Principles for Responsible Investment (UN PRI), thereby adopting its principles and obligating itself to integrate various environmental, social and corporate governance (ESG) factors into its investment analysis, its decision-making processes and the active exercise of its rights as shareholder.

In order to have as broad a database as possible when making investment decisions, the ESG investment process builds on both third-party research and our own analyses.

aa) Exclusion criteria

First, all eligible individual stocks are filtered on the basis of exclusion criteria. Companies are excluded that are active in the following controversial business areas and generate revenues through involvement in the following business areas.

These include companies,

- that violate the UN Global Compact. This is a global agreement between the United Nations and companies to uphold human rights, labor standards, environmental principles and fight corruption.
- that produce biological and chemical weapons, landmines, nuclear weapons, cluster bombs or uranium munitions.
- that generate > 5% turnover with conventional weapons.
- that generate > 30% revenue from thermal coal.
- that generate > 5% revenue from tobacco.
- that violate climate criteria or cause environmental controversy according to MSCI ESG Research.

In addition, government bonds are excluded whose issuers have an insufficient score according to the Freedom House Index (<https://freedomhouse.org/>) and/or according to the World Bank Governance Indicators (<https://info.worldbank.org/governance/wgi/>).

bb) Methods for environmental or social characteristics

During the second step, the issue of ESG is taken into account within the security selection process in the evaluation category specifically provided for this purpose (ESG score). The ESG score flows 1/6 into the individual stock evaluation and is translated into a DJE logic in the process. Generally, a better MSCI ESG score contributes to a more positive DJE overall score on a scale of -10 and +10.

In case of doubt, DJE Kapital AG might consider the available data to be subject to a review by a committee. During the review the committee may conclude that the data does not adequately reflect the actual situation and correct it to the extent that a more adequate reflection of reality is created.

cc) Engagement

An essential part of the investment process is also a partnership-based, constructive and documented dialog with the management of the invested companies (engagement). Critical questions relating to ESG issues help to assess the opportunities and risks associated with a business model in terms of sustainability more effectively and to transfer them to the analysis of key financial figures.

dd) Exercising voting rights at general meetings

The exercise of voting rights at annual general meetings is organized via an external partner. Voting rights are exercised based on a comprehensive written ESG policy.

ee) Consideration of adverse sustainability impacts – so-called „Principle Adverse Impacts“ (PAI)

A key part of the sustainable earnings analysis involves measuring a group of currently 18 indicators for each individual stock: the so-called PAIs („Principle Adverse Impacts“), which are also referred to as „adverse sustainability impacts.“ 16 of the PAIs relate to companies and two PAIs relate to government bonds. They can be divided into the following subject groups:

- Greenhouse gas emissions
- Biodiversity
- Water
- Waste
- Social and employment issues

Consideration of these PAIs in the investment process takes place by either minimum exclusion, voting, or engagement as part of company discussions.

ff) Sustainable Development Goals (SDG) and „Do not significant harm principle“ (DNSH)

Furthermore, the extent to which the business activities of an individual stock have a positive impact on selected sustainability goals of the United Nations is examined. DJE focuses on the goals „Decent work and economic growth“, „Sustainable consumption and production“, „Gender equality“, and „Climate protection measures“.

If a business unit has a positive impact (better than or equal to +2 in the MSCI Net Alignment Score) on one of the goals, it must not at the same time have a negative impact on any other goal (application of the „do not cause significant harm“ principle). As part of the process of verifying whether an individual stock qualifies as a sustainable investment, a „do not harm“ check is performed using various data fields, including those relating to the most significant adverse sustainability impacts.

In addition, the net scoring of one or more specified United Nations Sustainable Development Goals („SDGs“) must not be less than -2.

gg) Breakdown of investments into different categories

- If the individual security does not have an ESG rating or has an ESG rating of B or CCC and an ESG score lower than 2.9, the individual security will not be allocated to either the „ESG Category“ or the „Sustainable Category“, but will remain in the „Remainder“ category. The „Remainder“ category is assigned to those individual securities that have neither a corresponding ESG score nor meet the requirements for sustainable investments. In the composition of the portfolio, the individual securities in this category should represent the minority.
- To be assigned to the ESG category, the individual security must have an MSCI ESG rating of BB or better and an MSCI ESG score greater than 2.9.
- In order for an individual security to be assigned to the „Sustainable Category“ as a sustainable investment within the meaning of Art. 2 (17) of the OVO, various requirements must be met:
 - MSCI ESG Score greater than 2.9
 - Positive contribution: for at least one of the selected SDGs, the net score must be greater than 2.
 - Under the DNSH principle, for none of the selected SDGs the net score must be less than -2
 - For the area of good governance, the requirements of the UN Global Compact must be met.
 - Additional exclusions and filters regarding the PAI must be taken into account with regard to sustainability

2. STRATEGIES USED BY DJE KAPITAL AG TO MANAGE SUSTAINABILITY RISKS WITHIN ITS INVESTMENT DECISION-MAKING PROCESS³

As part of its investment process, DJE Kapital AG factors into its investment decisions, and evaluates on an ongoing basis, not only relevant financial risks but also sustainability risks, which may have a significant adverse impact on the returns of the holdings in an investment fund or portfolio.

The relevant financial risks include, but are not limited to:

- **general market risk,**
- **credit and counterparty risk and**
- **liquidity risk.**

These relevant financial risks, and other financial risks, are examined as part of a traditional securities analysis, which is part of the company's investment process, before any investment decision is made. The examination is based largely upon financial statement analysis, such as income statement and balance sheet ratios, as well as various other information about the target company.

In its selection of target companies for potential investment, this fundamental analysis also factors in sustainability risk through a process for classifying and excluding potential target investments. Companies that grossly violate the UN Global Compact are excluded because such violations are indicative of elevated sustainability risk. This exclusion process reduces company-specific investment risks because it helps to avoid various ESG risks arising from violations of human rights, labour rights or environmental standards. The exclusion process is undertaken with the help of a specialized company database, incorporating ESG information from a third-party research provider (MSCI ESG Research LLC) as well as the company's own research results. Using the indicators within the database, an aggregate overall rating is calculated for each company as the sum of various components. The recommendation is based upon the analyst's final assessment reached through fundamental analysis, consideration of sustainability risks, and personal interviews or contacts with the target company. As with other components of the overall rating, the analyst's assessment is quantified with a score of -10 to +10. Together with the quality of the personal interaction with the company, the analyst's assessment is included in the overall assessment of each potential investment.

DJE Kapital AG may then submit such database-derived scoring and exclusion decisions to committee review. Through this review process, the committee may come to the conclusion that database-derived exclusion-decision was erroneous and that the target company is thus eligible for potential investment. Should any existing investment holding be negatively assessed in the course of an updated analysis, and should the committee concur with the database-derived assessment, these holdings are generally liquidated and a note made that that the company is, for the time being, ineligible for new investment. During the review process, the committee takes into account additional criteria, such as likely future developments as these involve ESG factors, the exercise of voting rights, and the general economic outlook.

The scoring model rewards those companies that are determined to be acting to counter the sustainability risks to which they are exposed through adequate or even exemplary sustainability risk management. In addition, the model specifically takes the CO₂ intensity of each target company into account in order to mitigate the risk of environmental or climate-related declines in asset value, thereby avoid such potential "stranded assets".

Depending on the type of risk, the degree to which sustainability risks may negatively influence investment returns may vary considerably. Some factors which may intensify such exposures are:

- physical damage arising from extreme weather events,
- disproportionately high investment requirements,
- fines or penalties for failure to comply with applicable laws and regulations, and

3) Per Article 3 of the Disclosure Regulation

- reputational damage caused by a target company's disregards for climate or environmental protection standards or for social values and norms.

Companies with a high MSCI ESG score are generally less affected by sustainability risks than companies with a low score.

However, negative impact on investment returns arising from sustainability risks cannot be entirely ruled out.

3. TRANSPARENCY OF ADVERSE SUSTAINABILITY IMPACTS AT THE COMPANY LEVEL

a) Identification and prioritisation of principal adverse sustainability impacts and indicators

DJE Kapital AG takes into account the main adverse impacts of investment decisions on sustainability factors as defined in Article 4(1)(a) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosure requirements in the financial services sector.

The listed main adverse sustainability impacts correspond to those listed in the Annex to the Commission Delegated Regulation supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council (not yet finally published) with regard to regulatory technical standards specifying the details of the content and presentation of information related to the principle of avoiding significant adverse impacts, the content, methods and presentation of information related to sustainability indicators and adverse sustainability impacts and the content and presentation of information related to the promotion of environmental or social features and sustainable investment objectives in pre-contractual documents, websites and periodic reports.

These are:

1. GHG emissions
2. carbon footprint
3. GHG emission intensity of the companies in which investments are made
4. exposure to fossil fuel based companies
5. share of energy consumption and generation from non-renewable energy sources
6. intensity of energy consumption by climate-intensive sectors
7. activities that adversely affect areas with biodiversity in need of protection
8. emissions to water
9. proportion of hazardous and radioactive waste
10. violations of the UNGC Principles and the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
11. lack of processes and compliance mechanisms to monitor compliance with the UNGC Principles and the OECD Guidelines for Multinational Enterprises
12. unadjusted gender pay gap

13. gender diversity in governance and oversight bodies
14. engagement in controversial weapons (anti-personnel mines, cluster munitions, chemical and biological weapons)
15. GHG emission intensity (government bonds PAIs)
16. countries invested in that violate social regulations (government bonds PAIs).
 - Investments in companies without initiatives to reduce CO₂ emissions (voluntary).
 - Lack of due diligence (voluntary)

Consideration is given equally weighted in the investment process for each individual security through exclusion criteria and/or exposure and/or voting.

b) Actions being taken or planned by DJE Kapital AG to address key adverse sustainability impacts

In order to ensure compliance with sustainability principles in a consistent and systematic way, DJE Kapital AG makes use of data from MSCI ESG Research LLC., the leading international provider of ESG analysis and ratings. Based upon the data provided by MSCI ESG Research LLC, the most important adverse effects of investment decisions on sustainability factors are analyzed by DJE Kapital AG using internal strategies.

As already described in the investment process, exclusion criteria are first taken into account.

This means on the one hand that the criterion „Environment Climate Flag“ may not be set to „red“ for PAI 1,2 and 3 (so-called exclusion criterion) and for an allocation to the category „Sustainable“ furthermore may not be set to „red“ or „orange“ for PAI 1,2,3 and 6. This indicator measures the severity of controversies related to a company's climate change and energy policies and initiatives. Factors that affect this score include, but are not limited to, previous involvement in GHG-related litigation, widespread or egregious impacts due to the company's GHG emissions, resistance to improved practices, and criticism from NGOs and/or other observers.

In addition, the Environmental Controversy Flag criterion must not be set to „red“ for PAIs 8 and 9. This indicator is about assessing controversies (if any) related to a company's impact on the environment. Factors affecting this score include whether a company is involved in controversies related to land use and biodiversity, toxic releases, energy and climate change, water management, non-hazardous operational waste, environmental impacts of products and services, and management of supply chain environmental impacts.

Within the scope of PAI 4, the exclusion criterion „thermal coal“ must be taken into account to the extent that a company's sales may not account for more than 30% of total sales from production and sales. For classification in the sustainability category, a company must not be active in the fossil fuel sector.

For PAI 10 and 11, the „UN Global Compact“ criterion must not be set to „fail“ and for PAI to be classified in the sustainability category, the „UN Global Compact“ criterion must be set to „PASS“.

Another exclusion criterion for PAI 14 is controversial/outlawed weapons. Furthermore, PAI 15 and 16 exclude sovereign bonds whose issuers have an insufficient score according to the Freedom House Index (<https://freedomhouse.org/>) and/or according to the World Bank Governance Indicators (<https://info.worldbank.org/governance/wgi/>).

In addition to the listed exclusion criteria, the PAI assessment is based on the partnership-based, constructive and documented dialog with the management of the invested companies (engagement). Critical questions around ESG issues help to better assess the opportunities and risks associated with a business model in terms of sustainability and to transfer them to the analysis of key financial figures.

In addition, PAIs are taken into account in the area of voting.

These exclusion criteria, company discussions and voting reduce the company-specific investment risk, as risks triggered by violations of human and labor rights or environmental pollution are avoided.

The ability to consider such key adverse sustainability impacts depends to a very significant degree upon the availability of relevant information in the market. The necessary information is not always available in sufficient scope or quality for all assets in which DJE Kapital AG invests by way of the funds and mandates which it manages.

Because of the difficulties involved in obtaining such information, DJE Kapital AG will, for the time being, focus its consideration of key adverse sustainability impacts on its investments directly into the stocks and bonds of companies. It should be noted that a third-party fund acquired by a fund or portfolio managed by DJE Kapital may be managed with differing investment policies, which may not necessarily fully reflect DJE Kapital's own position on ESG factors, and/or its views on the key adverse sustainability impacts of the target fund's investment decisions. DJE Kapital AG will regularly review the availability of such information and, depending thereupon, may decide in future to likewise take such key adverse sustainability impacts into account in making decisions to invest in other kinds of assets and/or financial products.

c) Brief summary of DJE Kapital AG engagement (voting) policies

DJE Kapital AG does not directly exercise voting rights at shareholder meetings itself. However, voting rights for securities held by DJE funds administered through the company's wholly owned subsidiary, DJE Investment SA, are exercised in accordance with the company's stated principles for its exercise of voting rights. In the meantime, the exercise of voting rights has been transferred to an external partner, Glass Lewis. For further information please refer the company's engagement policy available at www.dje.de.

d) Adherence to responsible business conduct codes

As a committed member of the German Investment Funds Association (BVI – Bundesverband für Investmentfonds), DJE Kapital AG follows the Association's Rules of Conduct. The Executive and Supervisory Boards of DJE Kapital AG are committed to good corporate governance in accordance with these Rules of Conduct. DJE Kapital AG regularly publishes reports in compliance with all legal and regulatory requirements.

4. REVIEW AND UPDATING OF THIS POLICY

This Company Policy on Sustainability is subject to regular review and updating to reflect any process or strategy adjustments or any changes in legal or regulatory requirements. The currently valid version, as may change from time to time, is available at www.dje.de.

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