

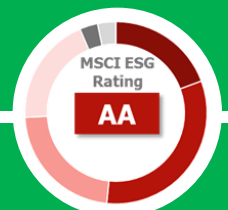


CHOM CAPITAL  
PERFORMANCE DRIVEN BY SUSTAINMENTALS\*



# ESG-DIRECTIVE SUSTAINABILITY GUIDELINES

March 2021





CHOM CAPITAL  
PERFORMANCE DRIVEN BY SUSTAINMENTALS®

## Our Mission

CHOM CAPITAL's mission is to create sustainable added value for investors.

Sustainability is a key element of our identity and the decisions we make, both as entrepreneurs and as asset managers. As such, we are committed to the principles of good corporate governance, a socially responsible human resources policy and an economically conscious use of our natural resources. In the spirit of sustainable finance, we want to make a positive contribution to climate change with our products and promote the allocation of financial flows to sustainable companies.

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## 1. Our Identity

As an owner-managed asset management boutique, we act for our investors independently of corporate guidelines and index ties on the basis of a profound fundamental and sustainability analysis. The inclusion of non-financial criteria such as environmental, social and corporate governance aspects - together referred to as ESG criteria - is an integral part of our corporate strategy.

We are committed to responsible corporate governance and a sustainable human resources policy. As a company, we want our products to make a positive contribution to the UN Sustainable Development Goals and promote the allocation of financial flows in this regard.

For us, responsible investing means consistently placing the customer's benefit and investment success at the center of our actions. As an active, long-term oriented and fundamentally driven investor, our ESG strategy consistently builds on our strengths: it focuses on identifying lasting value drivers. Sustainability thus flows into our investment decisions in terms of its relevance for investment success.

We are committed to the following overarching principles and internationally recognized standards:

- Ethical and social benchmarks: The United Nations Human Rights Principles and the 17 Sustainable Development Goals provide the superstructure for our environmentally and social convictions.
- Our exclusion criteria: We do not tolerate serious violations of the ILO Core Labor Standards, the UN Global Compact Principles and the OECD Principles for Multinational Enterprises.
- For the financial industry: We are committed to the acceptance and implementation of the United Nations Principles for Responsible Investment (PRI) and follow the BVI Rules of Conduct.

Integrating ESG into our investment process and actively and responsibly exercising the shareholder rights of the investments held in our funds are essential building blocks for CHOM CAPITAL in fulfilling our fiduciary duty. We are convinced that companies that act according to standards of good corporate governance have a superior risk-return profile in the long term. That is why we regard such investments as a worthwhile investment for the future, also in terms of performance. Our self-understanding is reflected in a simple equation: "Sustainability" + "Fundamentals" = "Sustainamentals®". We call the result:

**PERFORMANCE DRIVEN BY SUSTAINAMENTALS®**

## 2. Rooting ESG in our Company

ESG is not just an important part of our company. CHOM CAPITAL stands for the firm integration of sustainability in all areas: operationally as well as strategically, ESG is an integral part of our actions. Moreover, ESG is a strategic priority in our senior management with dedicated responsibilities assigned. All employees are involved.

CHOM Capital's managing directors and portfolio managers are personally committed to the principles of sustainable management and thus actively incorporate these principles into our various management discussions with target companies. The observance of these guidelines is decisive for the evaluation of our employees' work performance and thus has a significant influence on future salary development. In this respect, our compensation policy is in line with our sustainability strategy. ESG responsibility and investment decisions are combined and not separated at our company. Our ESG guidelines are recognized by all employees. Our Head of ESG oversees the strategic development of the topic and serves both internally and externally as point of contact.

We promote the dynamic further development of the integration of ESG into our investment process, both in terms of the know-how of our team and in terms of the adaptation of products and analysis methods to changing requirements. To this end, we draw on a variety of sources: from active participation in conferences and broker events, to further training through our data providers, to close exchanges with specialists.

Environmental conditions, social upheavals and/or poor corporate governance can have a negative impact on the value of our clients' investments and assets in several ways. These so-called sustainability risks can have a direct impact on the asset, financial and earnings situation and also on the reputation of the investment properties. Since such risks cannot be completely ruled out, we have developed specific strategies for the financial services we offer in order to identify and limit sustainability risks. Consequently, we try to identify and, if possible, exclude investments in companies that show an increased risk potential.

### 3. Sustainability in our Investment Process

As CHOM CAPITAL, we are measured by our investors' expectations that our investment products generate consistent added value. In the spirit of "sustainable finance", we do not focus solely on traditional financial indicators and a superior risk-return profile, but also consistently include good corporate governance, social aspects and the environmental contribution. The application of ESG criteria, together with conventional financial analysis, forms an integral part at every level of our multi-stage investment process: Investment Universe, Security Selection and Portfolio Construction, as well as the monitoring of our investments.

#### 3.1 Investment Universe

The European investment universe comprises approximately 6,000 listed companies. A total of approximately 2,100 listed European companies meets the liquidity requirements of our portfolios and are defined as investment universe. With specific and strict exclusion criteria, we see ourselves in a position to align investment decisions with environmental, social or company-related values, thus limiting sustainability risks. We sometimes narrow down the investment universe with a norm-based ESG screening.

All companies that do not comply with certain international principles and standards are not invested in. For example, a lack of commitment to the core labor standards of the International Labor Organization (ILO), including the prohibition of forced labor and child labor, leads to exclusion, as do violations of the UN Global Compact principles. In line with the approach of the German Sustainable Investment Forum (Forum für Nachhaltige Geldanlagen, FNG), we also exclude manufacturers of outlawed products. Examples include cluster bombs, landmines, biological and chemical weapons.

Furthermore, we tighten our exclusion criteria by allowing only for low turnover tolerances in coal production and power generation, nuclear energy, unconventional oil and gas extraction (e.g., fracking, oil sands), gambling and pornography. We also exclude companies with material controversies or a poor ESG rating ("CCC") from our sustainability rating agency, MSCI ESG Research.

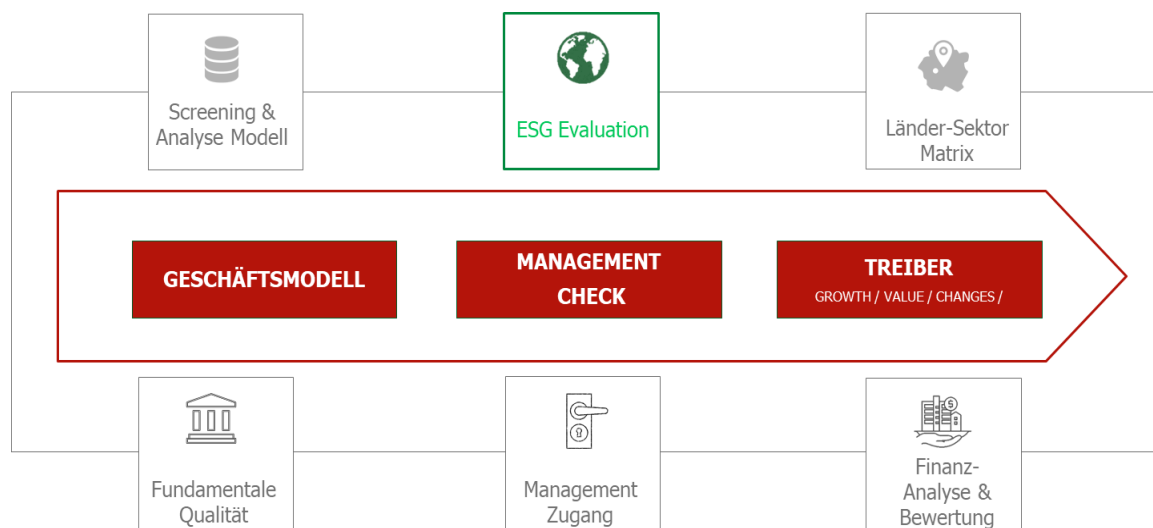
Despite the strict thresholds, a broad investable investment universe of around 2,000 European companies remains, which forms the basis for an attractive title selection while maintaining the allocation and diversification requirements necessary for a concentrated portfolio.



### 3.2 Security Selection

Close contacts with company executives established over 20 years are our most important instrument for stock selection. Each year, we hold over 600 meetings with the corporate bodies of our portfolio companies. These meetings serve to discuss the previously analyzed financial as well as non-financial ESG aspects and to penetrate business models, corporate strategy and key success factors/drivers. Product quality, customer and supply chains, market structures and barriers to entry play important roles in understanding these companies.

We complement this analysis with a data-based analysis of the ESG quality of the respective company. In particular, ESG ratings, objectives, potential sustainability conflicts and taxonomy issues are essential. In particular, we attach importance to clear targets in terms of a company's contribution to climate protection and improving our sustainable footprint, which are coupled with concrete deadlines for target achievement. We raise critical issues clearly. This relates to both the exposure to and management of material ESG risks, as well as to the potential that can be achieved by improving companies' compliance with ESG criteria.



We see upside opportunities for three types of sustainability profiles in particular: First, ESG stars that are inter alia leaders in low-carbon future technologies and often have the best sustainability metrics in their respective industries. Second, companies with strong momentum that generate growth because they consistently seize opportunities to innovate established product ranges in an environmentally friendly way, use natural resources more sparingly, or fundamentally change their production processes and supply chains. Thirdly, restructuring cases can also have interesting potential, for example when acquired companies are raised to levels already established for the parent company. Or if, starting from a low level, the value chain of a company is optimized through strategic measures to the extent that a significant improvement in the eco-balance can be expected.

Particularly in management discussions with small and medium-sized companies, which are of great interest to us as asset managers, we often achieve significant improvements because these companies are unable to apply the aforementioned ESG criteria in full or at all in the way that is common for larger publicly-listed companies.

To support our face-to-face discussions and further analysis, we also include other sources of information. For the fundamental data of our screening, portfolio and reporting models, for example, we use a variety of external research providers (brokers) and high-quality data feeds from the information service providers Bloomberg and FactSet. We obtain external ESG data from the provider MSCI, among others.

For our investors, we therefore combine the fundamental analysis of past and present-related company data with the analysis of future-related value enhancement potential that can result from the strict application of ESG criteria. This results in special opportunities for additional value enhancement for our investors.

### **3.3 Portfolio Construction**

The concentrated portfolio is based on the results of the company analysis, taking into account a large number of ESG and financial indicators. The holdings generally start equally weighted to ensure that each selected stock has a significant impact on the bottom line.

To make the sustainable orientation of our portfolios measurable for our investors, we set ourselves clear thresholds ("investability criteria"). None of our companies may violate our exclusion criteria and may not be rated lower than "B" on the MSCI ESG Research rating scale. We take great care to ensure that our companies make a positive contribution to the 17 United Nations Sustainable Development Goals and validate this through our contribution analysis. There must also be a positive result from the fundamental evaluation of the business model with a solid balance sheet and fulfillment of the Porter criteria. A successful management meeting as an important pillar of our investment process marks another investability criterion on the individual stock level. Finally, the aggregate fund rating must not fall below the threshold of an "A" rating. Potential new entries are also evaluated in terms of their marginal contribution to the overall fund rating as well as many other sustainability and fundamental KPIs such as the carbon footprint. When investing in a stock with a rating lower than "A", an ESG justification for inclusion in the portfolio must be provided by the relevant portfolio manager and the company is monitored particularly closely. In this way, sustainability risks can also be limited, measured and evaluated in the security management at portfolio level.



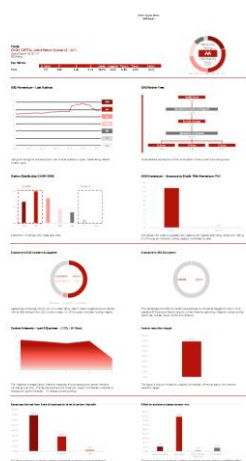
### 3.4 Investment Monitoring



Symbolic display

Our proprietary holistic dashboards and reports not only allow us to show the impact of an investment on the entire portfolio, but also to simulate the impact of a new or reallocated investment. In addition, our models allow us to map changes in sustainability metrics at the individual security and portfolio level and to check the implementation of the set investability thresholds.

## 4. Transparency and Reporting



Symbolic display

We have always attached particular importance to providing our investors with the best possible in-depth transparency.

With regard to sustainability criteria, we also inform our investors about the contribution of our portfolio to climate change, social and corporate governance criteria. Depending on customer needs, a more detailed examination of multi-layered ESG indicators is also possible at sector or individual stock level. For this purpose, we compile our own ESG reports and sustainability reports, and direct access to our ESG officers and portfolio managers is also possible at short notice.

## **5. Engaging for Sustainability**

### **5.1 Management Meetings**

Our portfolio companies are closely monitored through frequent management meetings. In our direct discussions, targets are clearly discussed in terms of contributing to climate protection and improving the sustainable footprint. If controversies arise at a portfolio holding, they are analyzed further, and the concerned company is confronted with these issues. The results of our discussions are documented, and the development is tracked over time with the aim of eliminating the violations or contributing to the implementation of risk-minimization strategies. If a controversy cannot be resolved or if targets are missed by a massive margin on a sustained basis, we divest the respective holding.

### **5.2 Exercising our Shareholder Rights**

We attach great importance to the representation of the interests of our investors and maintain a responsible approach to the voting rights of all listed and voting corporate investments held in our funds.

With regard to our voting policy, we are guided by the latest analysis guidelines for annual general meetings (ALHV) issued by the German Investment and Asset Management Association (BVI). In applying our voting principles, we try to work towards corporate management that is geared to sustainable and environmentally compatible value creation. This can mean either voting in favor of a proposed resolution or voting against it.

We work closely with our capital management company Universal Investment GmbH (UI) on the analysis of voting proposals and the technical implementation of the exercise of voting rights. UI's service providers, who specialize in shareholders' meetings, identify critical factors in the analysis of agenda items and draw up proposals for approval and rejection of the respective management proposals. These analyses are carried out in accordance with the German Corporate Governance Code, as well as the ALHV and the ARUG II directive and serve as an important basis for our voting behavior.

In a second step, these voting proposals are evaluated by us on a fundamental basis with regard to our understanding of the business model and corporate strategy and following our own analysis of management through company discussions. This may lead to a "fundamental override" of the resolution recommendations. If no changes result from our analysis, UI will vote on the present agenda items as proposed at the Annual General Meeting. For those companies for which we do not have analysis proposals, we validate agendas based on our fundamental understanding.

Further details are explained in our guideline on the exercise of voting rights and codetermination policy.

## 6. Living Sustainability Authentically

We also make our contribution in our daily business operations:



### **We set ourselves up to be climate neutral**

To compensate for our internal CO2 requirements, CHOM CAPITAL plants 2,000 trees per year in cooperation with the sustainability academy of Plant for the Planet. The number of trees results from the calculated CO2 demand of our company. Beyond this offset, looking forward, we have set a goal to reduce our carbon footprint by an average of 7% p.a. by 2025.



### **We live our approach**

And it starts with our workplace: Already certified with US LEED Standard Gold Status in 2011, the MAIN TOWER as our workplace is the first existing high-rise in Germany with this certification. In the MAIN TOWER, we focus on sustainable solutions in every detail. For example, the modern high-performance heating and cooling ceiling uses intelligent systems to save around 30% energy compared to conventional construction methods. We can also rely on the building's own combined heat and power units, solar control glazing, water-saving technology and an intelligent elevator concept.

We are improving our carbon footprint through a variety of measures. These include reducing the amount of business travel by increasing the use of video and telephone conferencing, consistently separating waste, and avoiding paper consumption by switching to digital media. Digitalization affects all areas of the company: accounting, operations, portfolio management and sales. A sustainable footprint is also ensured by the purchase of predominantly "green" electricity and the consideration of regional origin in the selection of products and services, where this is possible. We already provide our employees with free public transport tickets when required.

We are also a member of several initiatives:



### **General RI initiatives:**

Through our memberships with UN-PRI - Principles for Responsible Investment, the Forum for Sustainable Investment (FNG), the Center for Social and Sustainable Products AG (CSSP) and Eurosif - European Sustainable and Responsible Investment Forum, we offer comprehensive transparency, promote sustainability in the financial industry and have our quality independently audited.



### **Social Initiatives:**

We sponsor the Plant for the Planet Sustainability Academy, thereby supporting the education of children in developing countries. We are also a sponsoring member of the Frankfurt School of Finance and Management and a sponsoring member of Goethe University. We sponsor courses of study for high-potential students.

## 7. Conclusion: Our Added Value

- Guarantee of a broad investment universe (smaller, mid-sized and large companies) despite strict criteria.
- Expertise in evaluating future potential (fundamental & ESG) thanks to more than 25 years of stock market experience.
- Personal identity of portfolio and ESG manager improves analysis quality
- Broad network of company contacts and established management access allow in-depth holistic analysis and credible engagement.

## 8. Appendix: Our Principles

### 8.1 Ethical and Social Standards

#### United Nations – 17 Sustainable Development Goals (SDGs)



Source: <https://www.unglobalcompact.org/sdgs/17-global-goals>  
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### 8.2 Exclusion Criteria

#### United Nations – Global Compact Principles



##### Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

##### Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

##### Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

##### Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Source: <https://www.unglobalcompact.org/what-is-gc/mission/principles>  
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## ILO Convention – Activity against Child Labor



The ILO has so far drawn up five conventions dealing with the problem of child labor:

- ILO Convention Nr. 87 (Freedom of Association)
- ILO Convention Nr. 98 (Right to collective bargaining)
- ILO Convention Nr. 105 (Abolition of Forced Labor)
- ILO Convention Nr. 138 (Minimum Age for Employment)
- ILO Convention Nr. 182 (Elimination of the Worst Forms of Child Labor)

Sources:

ILO 87:

[https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_INSTRUMENT\\_ID:312232](https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312232)

ILO 98:

[https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_INSTRUMENT\\_ID:312243](https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312243)

ILO 105:

[http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_INSTRUMENT\\_ID:312250](http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312250)

ILO 138:

[http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100\\_ILO\\_CODE:C138](http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_ILO_CODE:C138)

ILO 182:

[http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100\\_ILO\\_CODE:C182](http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_ILO_CODE:C182)

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## OECD – Guidelines for Multinational Enterprises General Principles



Companies should take full account of the stated policies of the countries in which they operate and should also consider the views of other company stakeholders.

### A. Businesses should:

1. Contribute to economic, environmental and social progress with a view to achieving sustainable development.
2. Respect the internationally recognised human rights of those affected by their activities.
3. Encourage local capacity building through close co-operation with the local community, including business interests, as well as developing the enterprise's activities in domestic and foreign markets, consistent with the need for sound commercial practice.
4. Encourage human capital formation, in particular by creating employment opportunities and facilitating training opportunities for employees.
5. Refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to human rights, environmental, health, safety, labor, taxation, financial incentives, or other issues.
6. Support and uphold good corporate governance principles and develop and apply good corporate governance practices, including throughout enterprise groups.



7. Develop and apply effective self-regulatory practices and management systems that foster a relationship of confidence and mutual trust between enterprises and the societies in which they operate.
8. Promote awareness of and compliance by workers employed by multinational enterprises with respect to company policies through appropriate dissemination of these policies, including through training programmes.
9. Refrain from discriminatory or disciplinary action against workers who make bona fide reports to management or, as appropriate, to the competent public authorities, on practices that contravene the law, the Guidelines or the enterprise's policies.
10. Carry out risk-based due diligence, for example by incorporating it into their enterprise risk management systems, to identify, prevent and mitigate actual and potential adverse impacts as described in paragraphs 11 and 12, and account for how these impacts are addressed. The nature and extent of due diligence depend on the circumstances of a particular situation.
11. Avoid causing or contributing to adverse impacts on matters covered by the Guidelines, through their own activities, and address such impacts when they occur.
12. Seek to prevent or mitigate an adverse impact where they have not contributed to that impact, when the impact is nevertheless directly linked to their operations, products or services by a business relationship. This is not intended to shift responsibility from the entity causing an adverse impact to the enterprise with which it has a business relationship.
13. In addition to addressing adverse impacts in relation to matters covered by the Guidelines, encourage, where practicable, business partners, including suppliers and sub-contractors, to apply principles of responsible business conduct compatible with the Guidelines.
14. Engage with relevant stakeholders in order to provide meaningful opportunities for their views to be taken into account in relation to planning and decision making for projects or other activities that may significantly impact local communities.
15. Abstain from any improper involvement in local political activities.

**B. Companies are encouraged to:**

1. Support, as appropriate to their circumstances, cooperative efforts in the appropriate fora to promote Internet Freedom through respect of freedom of expression, assembly and association online.
2. Engage in or support, where appropriate, private or multi-stakeholder initiatives and social dialogue on responsible supply chain management while ensuring that these initiatives take due account of their social and economic effects on developing countries and of existing internationally recognised standards.

Source: <https://www.oecd-ilibrary.org/docserver/9789264115415-en.pdf?expires=1615908260&id=id&accname=quest&checksum=DA4CBEC13E99526C6B83B4879375F745>

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## 8.3 Responsible Investment

### United Nations

#### Principles for Responsible Investment (PRI)



We are committed to applying the following principles:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will each report on our activities and progress towards implementing the Principles.

Quelle: <https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment>  
[zurück](#)

### BVI Wohlverhaltensregeln (Rules of Conduct)



- The Asset Manager does not charge inappropriate fees or commissions and does not jeopardize investor interests by using practices that constitute market abuse.
- The Asset Manager adheres to clear execution policies that ensure settlement in line with market conditions and equal treatment of investors.
- The Asset Manager will render information in a clear, comprehensive and understandable manner.
- Supervisory board and management will work towards a good corporate governance of the asset.
- The Asset Manager acts as a responsible corporate citizen in environmental and social issues as well as corporate governance issues.

Quelle: [https://www.bvi.de/fileadmin/user\\_upload/Regulierung/Branchenstandards/ALHV/ALHV\\_2021\\_eng.pdf](https://www.bvi.de/fileadmin/user_upload/Regulierung/Branchenstandards/ALHV/ALHV_2021_eng.pdf)  
[zurück](#)