



CHOM CAPITAL  
PERFORMANCE DRIVEN BY SUSTAINMENTALS®



# CHOM CAPITAL Nachhaltigkeitsbericht 2021





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## Our Mission

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

Sustainability is at the same time an integral part of our decisions and our self-image as an entrepreneur as well as an asset manager. 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.

The protection of our planet and the promotion of a sustainable transformation of the economy are at the center of our thoughts and actions. We want to achieve long-term sustainable investment returns for our customers and link both worlds with social and ecological commitment.

## Inhaltsverzeichnis

1. Foreword.....	4
2. Our Corporate Identity .....	5
3. We live Sustainability .....	6
4. Sustainability Annual Report 2021 .....	8
4.1. Focus Topics and Outlook .....	8
4.1.1. At Company Level .....	8
4.1.2. Voting-and Engagement Strategy .....	8
4.1.3. Voting in 2021 by 100% with reference to sustainability .....	8
4.1.4. Accompanying Engagement Process.....	10
4.1.5. Holistic Dashboard .....	11
4.1.6. Continuous reinforcement of our monthly sustainability reporting as well as public lecturing activities.....	12
4.2. Award for Sustainable Positioning.....	13
5. Sustainability in our Investment Process.....	14
6. Sustainability as a Performance Driver.....	15
7. Conclusion: Our Added Value.....	16

## 1. Foreword

As a member of the UN PRI, it is with great pleasure that we are making an explicit sustainability report available to you for the first time this year on our website, providing an insight into our guiding principles and the concrete further development of our strategy beyond the scope of our annual report.

Both as CHOM CAPITAL and as individuals, we try to take many small steps in our direct environment and sphere of influence in terms of sustainability. We want to live commitment. For example, we donate 10% of our investment advisor compensation, conduct coaching for companies as well as investors, and apply our holistic analysis approach where ESG ratings have their limitations or are not available.



For us, sustainability is an essential factor of a successful business model and at the same time a performance driver in generating value for our investors. This development is only just beginning and represents a megatrend. We are devoting a separate chapter to this conviction.

Even though there is currently still a great lack of reliable sustainability standards despite a wide range of regulations, and "greenwashing" scandals are causing uncertainty, we are seeing very serious positive efforts and progress among our portfolio companies and listed companies throughout Europe with regard to their contribution to climate change, but also an improved people- and governance-related positioning.

Please join us on the following pages for a "deep dive" into our view of sustainability. We look forward to a constructive and forward-looking dialogue with you, and we are all just at the beginning of this sustainability journey that is so essential for us and our planet.

Sincerely,  
Yours

A handwritten signature in blue ink, appearing to read 'Benner', written over a horizontal line.

Christoph Benner, CEO and Founder



## 2. Our Corporate Identity

As an owner-operated asset management boutique, we act for our investors independently of group specifications and index ties on the basis of in-depth fundamental and sustainability analysis. The inclusion of non-financial criteria such as environmental, social and corporate governance - together "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 (SDGs) 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: We select (often purist) business models with high transformation potential for a more sustainable economy and identify long-term value drivers. Sustainability thus flows into our investment decisions in terms of its relevance for investment success.

We follow 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 environmental and social convictions.
- Our exclusion criteria: We do not allow discretion for 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 Code 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 with attractive business models, which act according to standards of good corporate governance, have a superior risk-return profile in the long term. For this reason, we consider such investments to be a worthwhile investment for the future, also in terms of performance. Our self-image is reflected in a simple equation: "Sustainability" + "Fundamentals" = "Sustainamentals®". We call the result:

**PERFORMANCE DRIVEN BY SUSTAINAMENTALS®**

### 3. We live Sustainability

We make our contribution in our daily business operations:

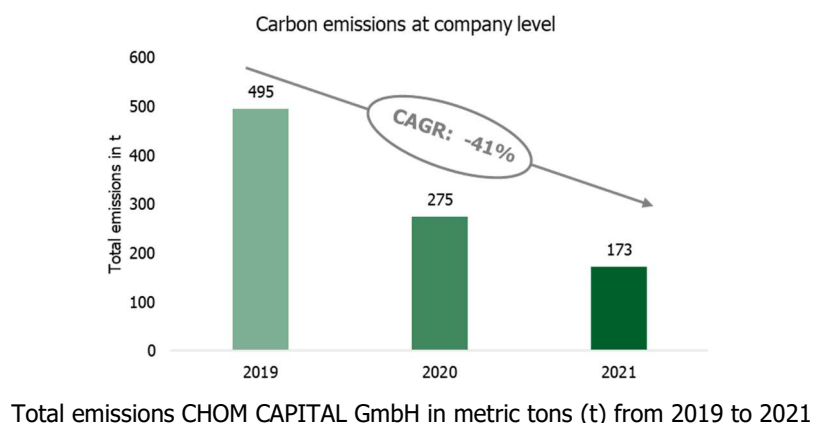
#### We live our approach

And we back it up with our actions. The implementation of our sustainability strategy also plays an important role in our daily business operations. CHOM CAPITAL stands for the consideration of fair remuneration systems, which is also reflected in the establishment of a partnership structure. As a company, we work with conviction and enthusiasm to make a positive contribution in various ways. Each year, we donate 10% of the fund turnover of CHOM CAPITAL PURE Sustainability - Small Cap Europe UI to ecological and social projects with a regional focus. These include reforestation projects, support for educational programs for the needy and projects to protect biodiversity.

#### We act in a climate-conscious way

And that starts with our workplace: Already certified with US LEED Standard Gold Status in 2011, the MAIN TOWER as our workplace is the first commercial 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. Furthermore, we can rely on the building's own combined heat and power plants, solar control glazing, water-saving technology or an intelligent elevator concept.

As a company, we track our own carbon footprint and set ourselves concrete goals to improve it. In recent years (since the start of measurement in 2019), we have been able to reduce our footprint by 41% p.a. through concrete measures (reduction of travel, increased use of video and telephone conferences, conversion of the vehicle fleet to hybrids, reduction of paper consumption through progressive digitization of processes, consistent waste separation, planting of trees) (see graph).



Looking forward, we have set ourselves the target of reducing our carbon footprint by an average of 7% p.a. from 2019 to 2025 (this lower figure than in the previous two years reflects the normalization we anticipate in our travel volumes following the

end of the pandemic). In view of the past years, we consider ourselves to be on a very good path and now regard our 7% target as more of a minimum goal. As already mentioned above, the measures planned to reduce CO2 consumption are the reduction of our business travel volume through the increased use of video and telephone conferencing, consistent waste separation and the avoidance of paper consumption by switching to digital media. Digitization affects all areas of the company: accounting, operations, portfolio management and sales. We also ensure a sustainable footprint by sourcing predominantly "green" electricity and taking regional origins into account when selecting products and services wherever possible. We also ensure strict waste separation on the company premises. And we provide our employees with free public transport tickets if required.

## We look ahead

And we don't do it alone. We are a supporting member and cooperation partner of the Frankfurt School of Finance & Management, finance the training of high-potential students and are available as a sparring partner. We are also a supporting member of Frankfurt's Goethe University. We economically support the education of children. As sponsors, we also support campaigns such as that of the Hessian Hockey Youth with its fundraising run against cancer or the preservation of endangered animal species via the Zoological Society.

A short visualization of already supported or planned projects as well as our memberships in various initiatives is presented below:



Already implemented and ongoing projects, memberships and initiatives of CHOM CAPITAL GmbH, broken down by environment, social and good governance.

## **4. Sustainability Annual Report 2021**

### **4.1. Focus Topics and Outlook**

At the beginning of each fiscal year, we decide in our Sustainability Advisory Board on specific focus topics to which we want to devote particular attention in order to further develop our sustainability strategy both conceptually and in terms of processes. We also regularly review the entire sustainability infrastructure of our company and continue to drive forward the holistic integration of sustainability at diverse corporate levels. In 2021, our particular focus was on the following further developments:

#### **4.1.1. At Company Level**

As part of our work on the annual financial statements, we expanded our internal guidelines and adapted them to changes in legal requirements. With regard to money laundering, we have tightened our internal safeguards, carried out employee training and met the extended requirements for reporting, our organizational structures and reporting. For the first time, we produced our own UNPRI report. An important milestone to underpin our conviction with action was the introduction of an annual donation of 10% of the fund turnover of CHOM CAPITAL PURE Sustainability - Small Cap Europe UI to ecological and social projects.

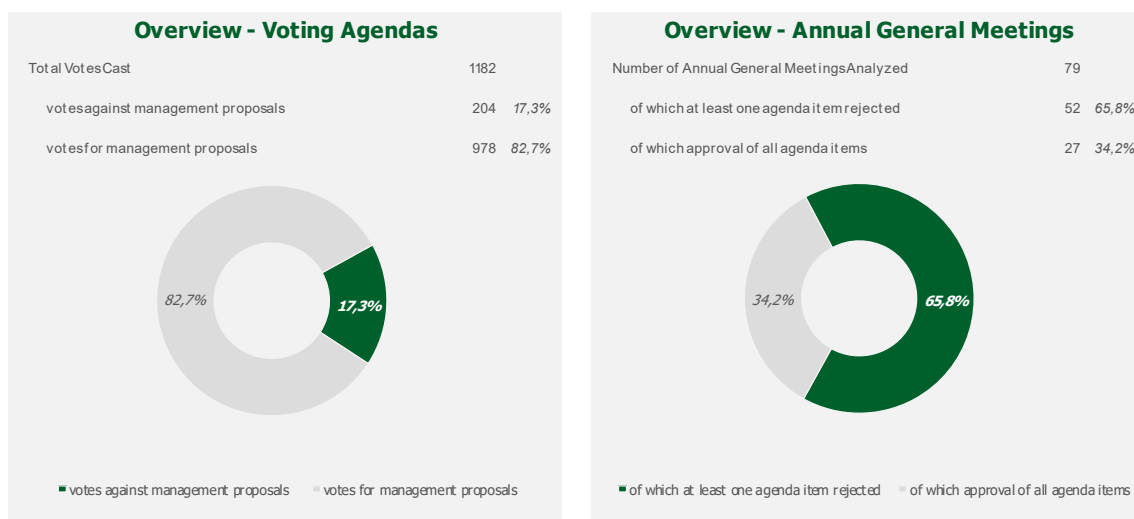
#### **4.1.2. Voting-and Engagement Strategy**

Active support for our shareholdings in the form of voting rights and engagement is important to us. In the past year, we have therefore significantly developed our voting policy in terms of both content and organization. In terms of content, we have inserted tighter requirements and set clear accents in the E and S area, enabling us to evaluate each agenda item not only from a governance perspective but also with a view to environmental and social aspects. We have supplemented our proprietary research by entering into our own cooperation agreement with IVOX GlassLewis. This also creates important advantages for us in the organizational implementation of the exercise of voting rights.

#### **4.1.3. Voting in 2021 by 100% with reference to sustainability**

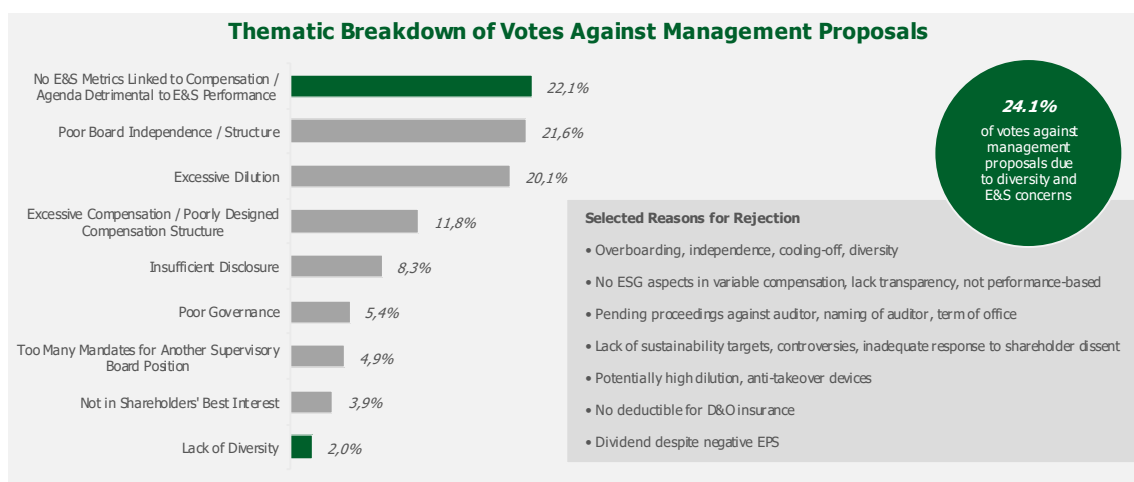
Our votes are always sustainability-related. In total, we cast our votes on 1,182 agenda items in 2021. We were able to vote with the management on 83% of these votes. Compared with the market as a whole, our shareholdings therefore have pleasingly good ESG structures. For us, the positive result is also an expression of the high management quality of our investments and confirms the importance of this selection criterion in our investment process. However, many companies are not yet "perfect". The meaningfulness of engagement through voting is illustrated by the fact that two-thirds of the companies required a rejection for at least one agenda item.





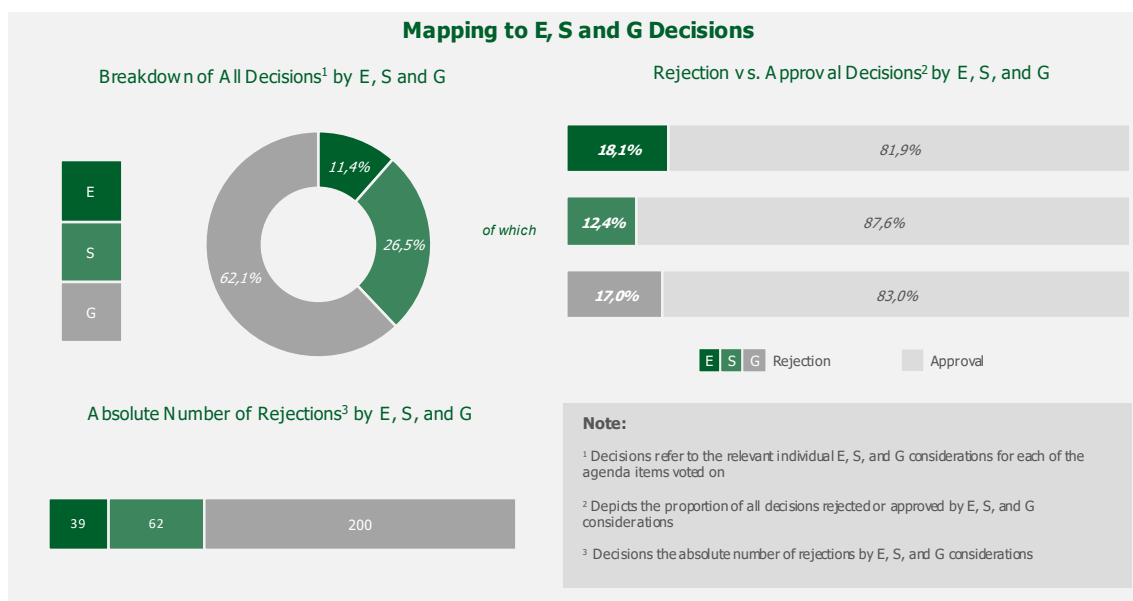
Summarized overview of all Annual General Meetings and votes 2021

Our main reasons for rejection were deficiencies in the compensation systems (caused, among other things, by a lack of E&S reference), inadequate inclusion of sustainability aspects in the AGM agenda, in the structure of the management boards or supervisory boards (e.g. “overboarding”, lack of independence, lack of transparency criteria, no D&O insurance with deductible), excessive capital measures that would lead to excessive dilution of shareholders, conflicts of interest, dividends that are not in line with requirements (dividend payments despite losses in the operating business), and a lack of diversity.



Thematic breakdown of voting behavior across the entire fund range

If we classify the voting topics according to environmental, social and governance-related aspects, we are pleased to note that 40% of our votes were significantly related to environmental and social issues. In this context, 11% of the votes were in the area of environment and 27% in the area of social affairs. In view of the fact that AGMs have a strong focus on governance-related aspects in terms of both content and regulation, we consider this to be an extremely positive development.



Aufschlüsselung des Abstimmungsverhaltens über die gesamte Fondspalette hinweg nach ESG-Kriterien

In terms of social and environmental aspects, we examine, among other things, compliance with diversity, the level and peer group orientation of executive and supervisory board compensation, the presence of ESG factors in the variable compensation components, the reference to the entire workforce, the presence of controversies, the location of responsibility for ESG at board level, and much more.

Companies' potential for improvement becomes visible when looking at rejections based on environmental or social quality deficiencies. The highest rate of rejections in 2021 is in the area of environment (18%), followed by company-related rejections (17%) and social reasons (12%). The rejections are nevertheless fairly evenly distributed, so that potential for improvement can be seen in all subject areas.

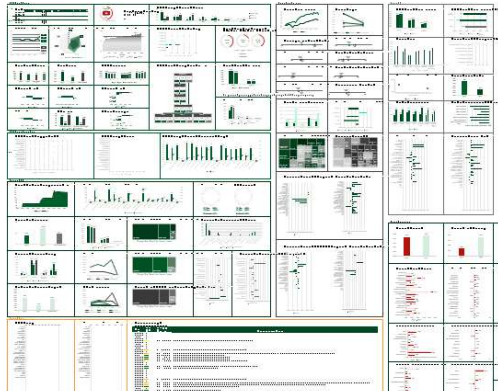
#### 4.1.4. Accompanying Engagement Process

For 100% of our shareholdings, we conduct a proprietary dedicated voting analysis and enter into dialog with the corporate officers of our shareholdings in advance of AGMs to obtain more in-depth information on key KPIs. In addition to further developing our proprietary research process (KPIs, scope), we have introduced a direct communication routine with the corporate officers of our investees in the run-up to an AGM in the 2022 AGM season to further streamline our data collection efforts. In our experience, our engagement is an effective tool to incentivize the managements of our investees to further develop the sustainable transformation of their companies or to increase transparency in this regard.

Through our dialogs with our KVG, we have been able to contribute to a significant improvement in the processes for the technical handling of reconciliations, and the list of affiliated European countries has continued to grow. We were able to successfully place our ESG-related requirements for our voting behavior via our cooperation partner IVOX-GlassLewis in the German Investment and Asset Management Association BVI.

#### 4.1.5. Holistic Dashboard

We also made considerable progress in portfolio management. We would like to highlight in particular the integration of a value chain view into our holistic dashboard. The integration of sustainability is becoming increasingly relevant for the balance sheet and P&L of our investments, and the impact of supply chain relationships and overall manufacturing structures on margins more material. We are currently looking at integrating portfolio allocation considerations from a sustainability perspective.



Symboldarstellung









Our proprietary holistic dashboards and reports not only allow us to show the impact of a holding on the rest of the portfolio, but we can also simulate the impact of a new stock addition or reallocation.

In addition, our models allow us to map changes in sustainability metrics at the individual asset and portfolio level, as well as to review the implementation of the set guidelines.

#### 4.1.6. Continuous reinforcement of our monthly sustainability reporting as well as public lecturing activities

Since the last fiscal year, we have been offering our investors in-depth monthly sustainability reporting. Through the publication of various articles, active knowledge transfer through ESG trainings for institutional investors, as well as activities as lecturers at various universities and as lecturers for financial planners on behalf of the FPSB (Financial Planner Standards Board) on the topic of ESG, we were able to make our analysis results transparent to a broader public and interested customer groups. Testimonials of selected companies that we support motivate us to continue on the path of our commitment to sustainability.

		
<b>YVES MÜLLER</b> CHIEF FINANCIAL OFFICER	<b>CRISTINA RIOS DE AMORIM</b> CHIEF FINANCIAL OFFICER	<b>STEFAN YEE</b> CHAIRMAN
		
<p>"We are deeply impressed by CHOM CAPITAL's SUSTAINMENTALS® approach, which takes a holistic view of a business model's future value potential and strategic positioning. This reflects our own conviction that tomorrow's winners combine sustainability with fundamental goals."</p>	<p>"Our regular dialogue with the CHOM CAPITAL team has provided us with an excellent opportunity to understand how we are perceived by our stakeholders and what their concerns and expectations are. The CHOM CAPITAL team has frequently visited our headquarters and production sites in Portugal. They know Corticeira Amorim and its management team very well and truly understand the special features of this family-owned business, the heart of whose identity is sustainability. Given CHOM CAPITAL's long-term, sustainable investment approach, our challenging discussions and its deep analysis, especially on sustainability issues, have been very helpful in identifying potential areas for improvement and for increasing disclosure and engagement."</p>	<p>"The CHOM CAPITAL team has built up in-depth sustainability know-how. The joint talks and discussions have shown us important and meaningful aspects. For UPG, sustainability is a central part of our strategy towards all stakeholders – our customers, our employees, our planet and our investors."</p>

Testimonials from selected companies

## 4.2. Award for Sustainable Positioning

At the award ceremony of the Forum for Sustainable Investments ("FNG"), CHOM CAPITAL's entire fund range was awarded the FNG sustainability seal for its holistic SUSTAINAMENTS® approach. For the funds CHOM CAPITAL Active Return Europe UI („CARE“) and CHOM CAPITAL PURE Sustainability – Small Cap Europe UI („PURE“) CHOM CAPITAL received a total of two out of three possible stars. This rating is reserved for sustainability strategies that excelled in the areas of "institutional credibility", "product standards" and "impact" (asset selection, engagement and KPIs). The independent and renowned certificate thus certifies that the company clearly exceeds the required strict ESG minimum standards in terms of transparency criteria, consideration of environmental protection, labor and human rights, and a wide range of other sustainability criteria in the investment process.

We are particularly pleased with the top score in both funds in the categories "Institutional Credibility" and "Product Standards." "For the second year in a row, the European all-cap fund CARE was awarded two stars, while the European purist small-cap fund PURE received the FNG seal for the first time this year. This award is groundbreaking, especially in the area of small caps, which is neglected by sustainability rating agencies.



Receipt of the FNG seal by

Paul Althans, Lead Portfolio Manager of CHOM CAPITAL PURE Sustainability - Small Cap Europe UI, Martina Neske, Managing Director and CFO, and Benedikt Kirsch, Head of ESG and Portfolio Manager (from left to right).



## 5. Sustainability in our Investment Process

As CHOM CAPITAL, we are measured by our investors' aspiration to generate consistent added value with our investment products. In the spirit of sustainable finance, we do not focus solely on traditional financial indicators and a superior risk-return profile, but also consistently incorporate good corporate governance, social aspects and their 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.

Company exclusions based on negative and investability criteria are an important element of this investment process. In a first step, we apply our negative criteria to our investment universe through an exclusion filter. Securities that are not filtered out here form our investment universe. As part of the stock selection and portfolio construction process, we analyze companies that are of interest to us from both a fundamental and ESG perspective. A central step before making an investment decision is the application and review of the investability criteria. A violation of these criteria leads to a decision against an investment.

Detailed information on all four levels of our sustainable investment process as well as further details on the anchoring of sustainability in our company and our commitment can be found on our homepage in our ESG directive.

## 6. Sustainability as a Performance Driver

We are convinced that the integration of ESG is indispensable in the fundamental analysis of business models. This is motivated by the increasing influence of sustainability aspects on financial performance indicators of companies. In the traditional thinking of the "shareholder value" approach, an internalization of negative externalities in a company's business model (e.g.: a coal-fired power plant now has to pay for its CO2 emissions) could only take place via two logical routes: Passing on the additional costs of avoidance to customers ("the coal-fired power plant passes on the higher costs in its prices and loses competitiveness") or absorption at the expense of its own economic margins ("the costs are borne by itself, profits fall"). Thus, a more sustainable orientation would be a trade-off between maintaining one's own competitiveness and one's own profitability and should therefore be avoided. However, we consider this conclusion that ESG would therefore be in conflict with the goal of increasing shareholder value to be outdated.

On the contrary, the sustainable orientation of a business model is becoming an increasingly important value-creation factor and essential for survival in the world of the coming decades. If you look at a company's income statement (P&L) using a simplified diagram, you can quickly see that every aspect of financial performance is now linked to the implementation of ESG and therefore a company must be viewed holistically. In the following, we will explain this linkage using this schematic P&L representation:



Schematic representation of a company P&L

## **Sales**

At the sales level, we are seeing higher average growth in sustainable product categories (via volume and/or price), particularly for consumer products. Particularly in industrial value chains, technological and strategic advantages of an early sustainability orientation can be identified ("first mover advantage"). In addition, measures such as the Supply Chain Act passed at the federal level in Germany also lead to a sales risk for those companies that cannot prove compliance with corresponding standards to their customers - ESG becomes a "license-to-operate", so to speak.

## **Operating Costs**

Similar effects can be analyzed in the cost base of companies. The commercial and legislative framework conditions under which companies currently operate lead to tangible cost potentials when sustainability aspects are taken into account in corporate management. These can be found, for example, in the implementation of circular product and goods chains, in tax incentives and in "green financing".

## **Profits & Valuation**

On balance, companies that seriously implement sustainability goals can gain a competitive advantage in terms of sales and expenses. This results in higher profits, which are usually also rewarded with higher valuations by the stock markets.

## **7. Conclusion: Our Added Value**

- Ensuring a broad sustainable investment universe (smaller, medium and large companies) despite strict guard rails.
- Expertise in evaluating future holistic potential (fundamental & ESG) thanks to more than 30 years of equity market experience.
- Personal identity of portfolio and ESG manager improves analysis quality.
- Broad network of company contacts and established management access allow deep holistic analysis and credible engagement.