

# Asset Management - Guidelines and Principles for Sustainable Investments

**October 2020**

# ASSET MANAGEMENT - GUIDELINES AND PRINCIPLES FOR SUSTAINABLE INVESTMENTS

1.	Introduction .....	3
2.	Definitions and Interpretations .....	5
3.	Investment Approach .....	6
3.1	ESG Risk Assessment Process .....	7
3.2	Exclusions .....	7
3.3	Global Standards (UN Global Compact) .....	8
3.4	Controversies .....	8
4.	ESG Engagement .....	9
4.1	Direct Dialogue .....	9
4.2	Formal Engagement Process .....	10
4.3	Collaborative Engagement .....	10
5.	ESG Goals .....	12
6.	Divestment .....	12

## 1. INTRODUCTION

Increasingly, ESG (environmental, social, and governance) criteria are being considered alongside economic factors in investment decisions.

The MainFirst Group (hereinafter "MainFirst") recognised the importance of an active sustainable investment approach early on. MainFirst firmly believes that asset management can make an important contribution to conserving the environment, to promoting and safeguarding social progress, and to questioning and insisting on corporate governance. As a company, MainFirst is doing its part to ensure that progress and value creation will now be closely linked to sustainability.

**„As a future-oriented, active asset manager, we are well aware of our social responsibility. That is why sustainability is one of the key areas of focus for MainFirst. Consequently, ESG factors are given careful consideration in investments and generate long-term positive added value for society, investors and the investments.**

As a result, on 12 May 2015, MainFirst committed itself to sustainability in its active asset management process through compliance with the "UN Principles of Responsible Investments" and becoming a signatory thereto. With this commitment, MainFirst has been following an active portfolio management style with a sustainability focus for more than five years. The "Principles for Responsible Investment" (PRI) were developed by the United Nations in 2006 to integrate ESG principles into investment practice. Then in 2015, when the "UN Sustainable Development Goals (SDGs)" were launched, they helped to set goals for the principles that are intended to shape a sustainable future. Since then, various national and international initiatives have highlighted the scale of the investment opportunities created by these goals.

MainFirst's Portfolio Management Team actively incorporates **environmental, social and governance (ESG) factors** into its investment and decision-making process and, in doing so, assumes responsibility.

The "ESG principles and guidelines" defined within the Group are implemented, monitored and documented by internal standards that apply throughout the Group, particularly in the areas of portfolio management, risk management and compliance. In addition, MainFirst undertakes to publish useful information and documents from the implementation and application of these ESG standards.

MainFirst works continuously to develop standards, criteria and processes in order to improve its ESG capabilities, while achieving a positive performance of the assets under management.

MainFirst operates within the framework of a sustainable investment approach based on the following principles:

**Thorough analysis.**

**Conscious exclusion.**

**Active selection.**

**Sustainable investment.**

The Portfolio Management Team avoids investments that are not in line with its values and standards in terms of sustainability. The dual effect of positive value creation for the investor and society can be achieved by investing in assets that have a positive impact on both target groups.

These principles and the processes described apply to the subsidiaries of MainFirst Holding AG, which currently includes the following companies:

- MainFirst Affiliated Fund Managers (Deutschland) GmbH,
- MainFirst Affiliated Fund Managers (Switzerland) AG,
- MainFirst Affiliated Fund Managers S.A.

This guideline sets out the internal procedures, documentation requirements, and escalation and monitoring scenarios.

The aim is to:

- document the group-wide integration of ESG into the investment process
- define engagement and dialogue strategies



**2. DEFINITIONS AND INTERPRETATIONS**

<b>ESG risks</b>	are government or corporate risks related to environmental, social or governance issues.
<b>Strategy, portfolio or portfolios</b>	are the mutual funds or special mandates of MainFirst Asset Management.
<b>Portfolio Management</b>	are the teams within the MainFirst Group that make the investment decisions (purchase and sale) for the individual portfolios of assets managed by MainFirst.

### **3. INVESTMENT APPROACH**

The investment approach and processes are largely determined by clearly defined criteria. These form binding principles for the selection and investment process. In addition to the product-specific investment objectives and statutory investment limits, ESG criteria in the selection and investment process reflect another important aspect that the Portfolio Management Team takes into account in its analysis, selection and investment decisions.

Considering ESG criteria and the resulting opportunities does not correspond to negative impacts on returns. Investors benefit from the ESG-compliant investments made by the Portfolio Management Team and participate in the responsibility for society, the environment, and progress.

Within the team-specific investment approach, investment opportunities are assessed and evaluated according to ESG criteria. The Portfolio Management Team systematically analyses the target investments using a broad range of environmental, social and governance factors. These are based on independent studies, ratings, publications, research, and internal standards. Information about the investment process is outlined and published in the annual sustainability report.

Four fundamental elements are considered in the analysis of investment decisions:

- ESG risk assessment
- Exclusions
- Global standards (UN Global Compact)
- Controversies

## 3.1 ESG RISK ASSESSMENT PROCESS

In general, the risk assessment is based on the classification provided by an external service provider. This risk assessment measures the extent to which the economic value of a company is jeopardised by ESG factors or, in more technical terms, the degree to which a company has not managed its ESG risks. The ESG rating of either a company or a country consists of a quantitative score that can be assigned to a particular risk category.

The ESG risk assessments are integrated into both the investment decision process and the portfolio construction. These ESG risk assessments can be interpreted at an absolute level per issuer or on a relative basis compared to the benchmark or the investment universe. Depending on the strategy, different approaches can be followed.

## 3.2 EXCLUSIONS

MainFirst has defined a negative list that, according to the “exclusion principle”, sets out criteria that fundamentally prohibit an investment:

MainFirst excludes investments in companies or products issued by companies that violate the UN Convention on Cluster Munitions. No deviations from this principle are permitted.

In addition, MainFirst excludes investments in companies (and their affiliates) that generate more than 50% of their revenues from military contracts, weapon-related products and/or services.

Furthermore, when implementing the product-specific investment policies of the investment funds managed by MainFirst, the Portfolio Management Team may also impose additional restrictions, as outlined below:

- **Energy and environment**

- Nuclear power

- Thermal coal

- Oil and gas

- Genetically modified plants and seeds

- **Value-based sectors**

- Adult entertainment

- **Tobacco and cannabis**

- **Defence and military involvement**

- Controversial weapons

- Military contracts

- Small arms

Riot control

### **3.3 GLOBAL STANDARDS (UN GLOBAL COMPACT)**

MainFirst takes compliance with global standards such as the UN Global Compact seriously. The management of any infringements is critically reviewed and documented in the investment process. If there is any doubt, in the case of sustainable products the ESG Advisory Board can also be consulted. The ESG Advisory Board can provide recommendations for exclusion or divestment, which can be implemented as outlined in this guideline.

### **3.4 CONTROVERSIES**

MainFirst regularly reviews the investment universe for potential controversies. Classification is initially carried out by an external data supplier. For sustainable products, if the highest level is reached, the ESG Advisory Board must be consulted to determine whether, from an ESG perspective, a company should continue to be included in the portfolio. If the investment is excluded, this will be documented and executed in accordance with this guideline.

## **4. ESG ENGAGEMENT**

MainFirst aims to maintain an ongoing dialogue (direct or indirect) with the Management, right up to the Supervisory Board of the relevant companies.

In the interest of ensuring that ESG standards are implemented, MainFirst is committed to maintaining an active dialogue with companies, particularly in cases where MainFirst is able to exert a certain influence on the issuer due to its current positioning or any investment decision dependent on it.

Our commitment should be seen in context and in relation to the size and age of the company, the available resources, as well as its importance within the sub-fund, in order to take a pragmatic and holistic approach towards further development within the scope of our opportunities with companies.

The engagement process is based on three different pillars:

- Direct dialogue
- Formal engagement process
- Community engagement

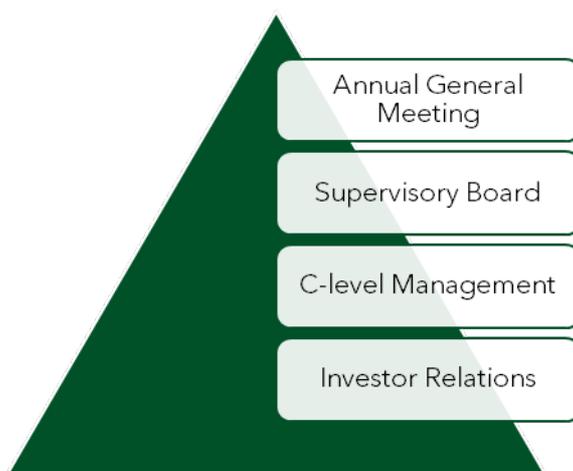
### **4.1 DIRECT DIALOGUE**

Direct dialogue can take place with companies, regardless of whether they represent a sustainable or a conventional product. The Portfolio Management Team uses these discussions to understand the companies' business policies and strategies, as well as their sustainability principles in order to weigh them against MainFirst's corporate principles. This direct dialogue can be documented in detail.

**4.2 FORMAL ENGAGEMENT PROCESS**

As part of the formal engagement process, Portfolio Managers of sustainable products should make contact with the companies. These discussions should focus on the companies’ ESG risk profiles. Therefore, the Management of selected companies is contacted directly and options to better integrate environmental, social or governance aspects within the particular company are discussed.

The following different escalation levels should be considered:



Any issues can be discussed first with the Investor Relations department then with Management. After this, non-compliance with agreed, documented targets or milestones can be reported to the Supervisory Board.

In addition, the right to speak and vote at the Annual General Meeting can be exercised in the event that further escalation is necessary.

**4.3 COLLABORATIVE ENGAGEMENT**

MainFirst defines collaborative engagement as supporting initiatives by several investors or other capital contributors, with the aim of improving environmental, social or other factors. This engagement may involve public and private companies, countries or regions.

Collective engagement may be proposed by the ESG Task Force or the ESG Advisory Board and initiated by the ESG Committee.

The aim of the collaborative engagement is a constructive exchange with corporate leaders to improve the individual ESG profile in cases where MainFirst has little direct influence through the aforementioned approaches.

For example, MainFirst has joined the Carbon Disclosure Project (CDP) initiative. This international non-profit organisation was founded in London in 2000 with the aim of collecting high-quality climate-related corporate data and motivating investors, companies and governments to take action against climate change.

Once a year, the CDP asks companies to submit data and information about the opportunities and risks of climate change, CO<sub>2</sub> emissions, and relevant strategies and measures. The standardised questionnaire is sent to the largest listed companies worldwide. The annual CDP reports are available free-of-charge to all interested parties on the organisation's website. Investors who support the CDP also have access to non-public corporate responses. In total, more than 800 institutional investors support the initiative.

MainFirst uses this data for further analysis and targeting within the dialogue strategy.

## **5. ESG GOALS**

MainFirst is committed to focusing on achieving a **dual effect** as part of its active portfolio management. In addition to the goal of generating an appropriate increase in value for the investor, the investments should also take advantage of and bring about comprehensive opportunities and prospects in the context of environmental and social considerations.

## **6. DIVESTMENT**

The Portfolio Management Team will actively divest (sell) an investment if the analyses and evaluations of publicly available information and documents, or those obtained as part of the active dialogue, reveal a breach of its ESG standards. In doubtful cases or in the interest of clarifying disputed analysis results, the Portfolio Management Team can involve the ESG Advisory Board to initiate a further evaluation and decision. If necessary, an external party or data provider may be consulted to provide a comprehensive analysis and evaluation. If non-compliance with ESG criteria is confirmed, the Portfolio Management Team must re-establish compliance with the regulations within 30 trading days and carry out a divestment. This is monitored by both the Investment Compliance and Risk Management Teams and reported to the ESG Committee.

**DISCLAIMER:**

The sole purpose of this document is to provide product information for advertising purposes. It is not a mandatory document required by law or regulation. The information contained in this document does not constitute a solicitation, offer or recommendation to buy or sell fund units, or to engage in any other kind of transaction. The sole purpose of the information is to give the reader an understanding of the main characteristics of the fund, such as the investment process. It is not intended, in whole or in part, as a recommendation to invest. It is no substitute either for the investor's own considerations or for other forms of legal, tax or financial information and advice. Neither the management company nor its employees or governing bodies can be held liable for losses resulting directly or indirectly from the use of the contents of this document or in any other connection with this document. The sole binding basis for the purchase of units is the sales documents as last amended (prospectus, KIIDs and, supplementing these, the semi-annual and annual report), in which detailed information on the purchase of fund units as well as the inherent risks and opportunities can be found. These are available free of charge in German, English and French from the management company MainFirst Affiliated Fund Managers S.A., 16, rue Gabriel Lippmann, L-5365 Munsbach, as well as from MainFirst Affiliated Fund Managers (Deutschland) GmbH, Kennedyallee 76, D-60596 Frankfurt am Main, in electronic or printed form. The sales documents mentioned and other supplementary information can be downloaded from the management company's website: [www.mainfirst-invest.com/en/fund-services](http://www.mainfirst-invest.com/en/fund-services). Author: MainFirst Affiliated Fund Managers S.A. This document and the information it contains are directed solely at professional clients and suitable counterparties within the meaning of Directive 2014/65/EU on markets in financial instruments (MiFID II). It may not be forwarded to retail clients within the meaning of MiFID II, nor may it form the basis for their investment decisions. This document may not be forwarded to persons domiciled in countries in which fund distribution is not permitted or authorisation is required for distribution. Units may only be offered to persons in such countries if this offer complies with the applicable legislation and it is ensured that the distribution and publication of this document, as well as the offer or sale of units, is not restricted under the legal system in question. In particular, the fund will not be offered either in the United States of America or to US persons (within the meaning of Rule 902 of Regulation S of the U.S. Securities Act of 1933, as amended), nor on their behalf, for their account or in favour of persons representing a US person. Past performance is not an indication or guarantee of future performance. Fluctuations in the value of the underlying financial instruments, their returns and changes in interest rates and exchange rates mean that the value of units in a fund and the associated returns can rise as well as fall, and are not guaranteed. The valuations contained in this document are based on several factors, including current prices, estimates of the value of the underlying assets and market liquidity, as well as further assumptions and publicly accessible information. In principle, prices, values and returns can rise as well as fall. In the worst case, an investor can lose all of the invested capital. Assumptions and information are subject to change without prior notice. The value of the invested capital and the price of fund units, along with the resulting returns and dividend amounts, are subject to fluctuation and may fall to zero. Therefore, positive past performance is no guarantee of positive future performance. In particular, there is no guarantee that the invested capital will retain its value; thus, there is no guarantee that, upon sale or redemption, the value of the invested capital or of the fund units held will be the same as the original capital amount invested. Foreign currency investments are subject to additional exchange rate fluctuations/currency risks; this means that the performance of such investments also depends on the volatility of the foreign currency, which can adversely affect the value of the invested capital. Holdings and allocations may change. There is no guarantee that the market forecasts will prove accurate. Any mention of risks in this publication should not be regarded as a full disclosure of all applicable risks or a comprehensive description thereof. We expressly refer to the detailed risk descriptions in the prospectus. We cannot guarantee that the information is accurate, complete or up-to-date. Content and information are subject to copyright. We cannot guarantee that the document complies with all legal or regulatory requirements for documentation in place in countries other than Luxembourg. Note: The most important technical terms are explained in the glossary at [www.mainfirst-invest.com/en/glossary](http://www.mainfirst-invest.com/en/glossary). Information for Investors in Switzerland: Country of domicile of the Investment Fund is Luxembourg. Representative in Switzerland is UBS Fund Management (Switzerland) AG, Aeschenplatz 6, CH-4052 Basel. Paying Agent in Switzerland is UBS Switzerland AG, Bahnhofstrasse 45, CH-8001 Zurich. The prospectus, key investors information document (KIID), articles of association as well as the annual and semi-annual reports are available free of charge from the Representative.