



## 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 risks<sup>1</sup>, and
- its consideration of adverse sustainability impacts in the company-level investment decision-making process<sup>2</sup>.

The information pertaining thereto may be found within this document. Advertising of ecological or social features of the funds managed by DJE Kapital AG will only be implemented for selected funds/sub-funds. 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 striving to only invest 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"?

Environmental, social and governance (ESG) factors cover a range of important themes, specifically including the following:

#### 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

## 2. STRATEGIES USED BY DJE KAPITAL AG TO MANAGE SUSTAINABILITY RISKS WITHIN ITS INVESTMENT DECISION-MAKING PROCESS<sup>3</sup>

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. DJE Kapital follows these responsible investing principles out of genuine conviction.

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 specialised 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 which 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 CO<sub>2</sub> 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 impact 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
- reputational damage caused by a target company's disregard for climate or environmental protection standards or for social values and norms.

Target companies with a high score are less likely to be adversely 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<sup>4</sup>

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

DJE Kapital AG currently views the following sustainability issues and indicators as being the most pressing and important, with each having equal priority:

- Violations of any of the 10 Principles of the UN Global Compact
- Banned or objectionable weapons (e.g. land mines, cluster bombs, weapons of mass destruction)
- Other (conventional) weapons
- Corruption

3) Per Article 3 of the Disclosure Regulation

4) Per Article 4 of the Disclosure Regulation

In managing individual funds, investment portfolios or financial services, DJE Kapital AG may, as relevant to the specific investment strategy, further take the following additional sustainability issues and indicators into account:

- CO<sub>2</sub> emissions of target company relative to revenues, based on country and raw material consumption
- Adult entertainment (pornography)<sup>6</sup>
- Gambling<sup>5</sup>
- Nuclear energy<sup>5</sup>
- Coal energy<sup>5</sup>
- Genetically modified seeds<sup>7</sup>
- Tobacco<sup>8</sup>

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 largely upon the data provided by MSCI ESG Research LLC, DJE Kapital AG then analyses and considers key adverse sustainability impacts as these relate to its investment decisions.

The ability to take such key adverse sustainability impacts into account 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.

DJE Kapital's selection process excludes companies active in, and generating revenue through, their involvement in the following businesses:

- Banned or objectionable weapons (e.g. land mines, cluster bombs, weapons of mass destruction)
- Conventional weapons<sup>5</sup>

DJE Kapital AG also excludes companies that engage in controversial business practices, specifically including any company that clearly violate one or more of the Ten Principles of the United Nations Global Compact without any prospect of positive change (<https://www.unglobalcompact.org/what-is-gc/mission/principles>). These Ten Principles, which cover human rights, labour standards, environmental protection and anti-corruption (good governance), are summarised below:

## The 10 principles of the UN Global Compact Businesses should ...

### Human rights

- 1 ... support and respect the protection of internationally proclaimed human rights.
- 2 ... make sure that they are not complicit in human right abuses.

### Labour standards

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

### Environment

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

### Corruption

- 10 ... work against corruption in all its forms, including extortion and bribery.

Should information become publicly known that a company in which DJE Kapital holds an investment position has clearly and demonstrably violated any of these principles, DJE Kapital will generally liquidate the position in a way which preserves the interests of its investors.

5) Exclusion if sales >5% of total revenue

6) Exclusion if sales >5% resp. 30% of total revenue

7) Exclusion if revenue from production of these items exceeds 5% of total revenue or if revenue from sale of these items exceeds 25% of total revenue

8) Exclusion if sales > 5% resp. 30% of total revenue

In addition, sovereign issuers are excluded if they have an inadequate 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/>).

The above exclusion criteria serve to reduce company-specific investment risks because they avoid important ESG risks which might otherwise be triggered by a target company's violations of human rights, labour standards or environmental standards.

Meetings and other direct contacts with target company executives and other representatives serve as an additional and very important source of information for DJE Kapital's analysis and provide DJE Kapital with an opportunity to positively influence companies in which it holds a stake. As part of these meetings, DJE Kapital employees are required to address and discuss ESG-relevant topics and risks. In these activities, DJE Kapital AG follows the EFAMA Stewardship Code of the European Fund and Asset Management Association (EFAMA).

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. For further information please refer the company's engagement policy available at [www.dje.de](http://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](http://www.dje.de).

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