

Strategies of DJE Kapital AG for addressing sustainability risks and for considering adverse sustainability impacts in investment decisions and in the advisory process at company level

I. Introduction

As a financial market participant within the meaning of Article 2(1) and a financial advisor within the meaning of Article 2(11) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial sector (hereinafter "Disclosure Regulation"), DJE Kapital AG is obliged to provide transparency on

- strategies for addressing sustainability risks¹ and
- adverse sustainability impacts at company level²

The relevant information can be found in this document.

As a result of the investment process newly established at DJE Kapital AG from August 2022, environmental or social characteristics will be promoted in the investment strategies managed by DJE Kapital AG or for other specific financial instruments in almost all products. For these, the corresponding information is published in accordance with Art. 10 of the Disclosure Regulation, which can be accessed under the respective product.

a) Mission statement of DJE Kapital AG: Responsible investing

Issues such as human rights, responsible corporate governance and environmental protection are of great importance to DJE Kapital AG.

The world can only get a grip on its problems – such as climate change – if everyone works together. However, the current commitments made by politicians are not yet sufficient to limit the rise in global warming to a maximum of 2°C.

As a financial market participant and financial advisor, we make a corresponding contribution and endeavour to invest in companies that are committed to environmental, social and governance (ESG) issues with the aim of reducing the sustainability risks of the investments. As financial advisors, we explain in our investment advice how these sustainability risks are included and how they can affect the return on financial products.

b) What is meant by "sustainability risks"?

Sustainability risk within the meaning of Article 2(22) of the Disclosure Regulation is defined as an *environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment.*

These effects may have an impact on the net assets, financial position and results of operations of the respective fund or portfolio managed by DJE Kapital AG as well as on the reputation of DJE Kapital AG. Sustainability risks can have a significant impact on all known risk types (market risk, liquidity risk, counterparty risk and operational risk) and contribute to the materiality of these risk types. Companies in which investments are made may be subject to physical climate change risks such as temperature fluctuations, rising sea levels, etc.

c) What are "sustainability factors"?

Sustainability factors within the meaning of Article 2(24) are *"environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters."*

d) What are "ESG factors"?

ESG stands for environmental, social and governance. ESG factors can relate to various topics, including:

Environmental

- Climate protection
- Climate change adaptation
- Protection of biodiversity
- Sustainable use and protection of water and marine resources
- Transition to a circular economy, waste prevention and recycling
- Prevention and reduction of environmental pollution
- Protection of healthy ecosystems
- Sustainable land use

Social

- Compliance with recognised labour law standards (no child or forced labour, no discrimination)
- Compliance with occupational safety and health protection
- Appropriate remuneration, fair conditions in the workplace, diversity and training and development opportunities
- Freedom of association and assembly
- Ensuring adequate product safety, including health

¹In accordance with Article 3 of the Disclosure Regulation

²In accordance with Article 4 of the Disclosure Regulation

protection

- Equal requirements for companies in the supply chain
- Inclusive projects or consideration for the needs of communities and social minorities

(Corporate) governance

- Tax honesty
- Measures to prevent corruption
- Sustainability management by the Executive Board
- Executive Board remuneration as a function of sustainability
- Enabling whistle-blowing
- Guarantee of employee rights
- Guarantee of data protection
- Disclosures

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

In 2018, DJE Kapital AG signed up to the UN Principles for Responsible Investments ("UN PRI") and is thus obliged to integrate environmental, social and governance considerations (known as ESG factors) in its investment analysis and decision-making processes as well as the practice of actively exercising shareholder rights.

In order to have the broadest possible basis for data in the investment decision-making and advisory process, the ESG investment process is based on both third-party research and our own analyses.

aa) First, all eligible individual securities are filtered on the basis of exclusion criteria.

No investments are made in companies that operate in the following controversial areas or that generate revenues from involvement in the following areas:

This includes companies

- that violate the UN Global Compact. This is a global agreement between the United Nations and companies on compliance with human rights, labour standards, environmental principles and the fight against corruption.
- that produce biological and chemical weapons, landmines, nuclear weapons, cluster bombs or uranium munitions.
- that generate > 5% of their revenue from armaments.
- that generate > 30% of their revenue from thermal coal.
- that generate > 5% of their revenue from tobacco.
- that, according to MSCI ESG Research, violate climate criteria or trigger environmental controversies.

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

bb) Methods for environmental or social characteristics

Second, the topic of ESG is taken into account in the dedicated assessment category (ESG score) within the security selection process. The ESG score flows 1/6 into the measurement of individual securities and is translated into DJE logic. The following applies: the better the MSCI ESG score, the more positively it contributes to the overall DJE rating on a scale of between -10 and +10.

In case of doubt, DJE Kapital AG may subject the available data to a review by a committee. During the review, the panel may come to the conclusion that the data does not adequately reflect the actual situation and correct it to reflect reality more adequately.

cc) Engagement

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

dd) The exercise of voting rights at annual general meetings is organised via an external partner. Voting rights are cast on the basis of a comprehensive written ESG policy.

ee) Consideration of Principal Adverse Impacts (PAI)

An essential part of the sustainable earnings analysis consists of measuring a group of currently 18 indicators for each individual security: the Principal Adverse Impact ("PAI") indicators, also known as "adverse sustainability impacts". 16 of the PAIs relate to companies and two to government bonds. They can be categorised into the following subject groups:

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

These PAIs are taken into account in the investment process either through minimum exclusion, voting or engagement in the context of company discussions.

ff) Sustainable Development Goals (SDG) and Principle of "Do no significant harm" (DNSH)

As part of the review of whether an individual security qualifies as a sustainable investment, a "no harm" or "significant harm" check is carried out using various data fields that relate to the most significant adverse sustainability impacts. These are provided by MSCI ESG Research LLC:

- The company must not have an ESG rating of "CCC" or "B" from MSCI ESG Research LLC.
- The overall rating of the company by MSCI ESG Research LLC must not be categorised as "red". This overall rating indicates whether a company has a notable controversy related to its operations and/or products and the severity of the social or environmental impact of the controversy.
- The company does not own, lease or manage any operating sites in or adjacent to protected areas and areas of high biodiversity value outside protected areas.
- Assessment of the company regarding controversies (if any) in connection with environmental impacts must not result in a rating of "red" or "orange". Factors affecting this

assessment include whether a company is involved in controversies related to land use and biodiversity, toxic releases, energy and climate change, water management, non-hazardous operational waste, environmental impacts of products and services, and management of environmental impacts of the supply chain.

- Assessment of the company regarding controversies (if any) in connection with impacts on customers, human rights and community, labour rights and supply chain (social) must not result in a "red" rating.
- Assessment of the company regarding controversies (if any) in connection with its governance practices must not result in a "red" rating. Factors that influence this assessment include whether a company is involved in controversies relating to bribery, fraud and governance structures.
- Assessment of the company regarding controversies (if any) in connection with employee relations, a company's supply chain and child labour must not result in a "red" rating.
- The company may not manufacture tobacco products such as cigars, cheroots, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable tobacco or chewing tobacco. This also includes companies that cultivate or process raw tobacco leaves. In addition, sales from the distribution of tobacco and/or the manufacture and supply of key products required for the manufacture of tobacco products, e.g. tobacco flavourings, cigarette filters (acetate tow), paper for tobacco rolls, machines for the manufacture of cigarettes and tobacco packaging, in particular cigarette packets,
- cigarette foil and aluminium foil, may not exceed 5% of total revenue.
- Assessment of the company regarding controversies (if any) in connection with its climate change and energy policies and initiatives must not result in a rating of "red" or "orange". The factors that affect this valuation include: previous involvement in legal cases related to greenhouse gases, widespread or egregious impacts due to the company's greenhouse gas emissions, resistance to improved practices and criticism from non-governmental organisations and/or other observers.
- The company must have no industrial connection to landmines, cluster munitions, chemical weapons or biological weapons; industrial connection includes ownership, production or investment. Landmines do not include the corresponding containment products.
- The company must not be rated "Fail" in terms of compliance with the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises.
- The company's remuneration policy or practice must not have attracted negative public comment from stakeholders (including shareholders, governments, regulators, etc.).
- Assessment of the company regarding controversies (if any) in connection with remuneration and governance practices must not result in a "red" rating. Factors affecting this assessment include past involvement in compensation-related legal cases, widespread or egregious instances of shareholder or board-level objections to compensation practices and governance structures, opposition to ESG-related

shareholder proposals, opposition to improved practices and criticism from non-governmental organisations and/or other external observers.

- The assessment of the projected temperature rise (in 2100 or later) if the entire economy had the same level of greenhouse gas emissions as the analysed company, based on its most recent Scope-2 emission forecasts, must be below 10 degrees.
- Government issuers must not be sanctioned by the EU.
- The government issuer must not be exposed to a high risk in connection with per capita carbon emissions. The higher the per capita carbon emissions of a country, the higher the associated risk (assessment based on per capita CO₂ emissions).

In addition, the net scoring of one or more defined Sustainable Development Goals ("SDGs") of the United Nations, as assessed by MSCI ESG Research LLC, must not be below -2. These are currently:

- Goal 5 – Gender equality – Achieve gender equality and empower all women and girls
- Goal 8 – Sustainable economic growth and decent work for all – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- Goal 12 – Sustainable consumption and production patterns – Ensure and promote sustainable consumption and production patterns
- Goal 13 – Take immediate action to combat climate change and its impacts

gg) Breakdown of investments into different categories

- If the individual security does not have an ESG rating or has an ESG rating of B or CCC and an ESG score of less than 2.9, the individual security is not assigned to either the "ESG category" or the "Sustainable category", but remains in the "Remainder" category. The "Remainder" category includes those individual securities that neither have a corresponding ESG score nor fulfil the requirements for sustainable investments. When compiling the portfolio, the individual securities in this category should represent the minority.
- To be assigned to the "ESG" category, the individual security must have an MSCI ESG rating of BB or better and an MSCI ESG score greater than 2.9.
- A number of requirements must be met for an individual security to be categorised as a sustainable investment within the meaning of Art. 2 (17) of the OVO:
 - MSCI ESG Score greater than 2.9
 - Positive contribution: the net score must be greater than 2 for at least one of the selected SDGs
 - As part of the DNSH principle, the net score must not be lower than -2 for any of the selected SDGs
 - The requirements of the UN Global Compact must be met in the area of good governance
 - Additional exclusions and filters relating to PAIs must be taken into account with regard to sustainability

f) Process description for ESG target funds

ESG characteristics were defined for the selection of target funds.

Each sub-fund/fund takes ESG factors into account when selecting units in other undertakings for collective investment in transferable securities (UCITS), so-called "target funds", taking into account the following criteria:

Target funds that contain investments of more than 0.49% in issuers that

- are unequivocally breaching one or more of the ten principles of the "United Nations Global Compact", where there is no prospect of any positive change
- generate more than 10% of their revenue from defence equipment
- generate more than 30% of their total revenue from the production and/or distribution of thermal coal
- generate more than 5% of their total revenue from the production and/or distribution of tobacco
- violate social regulations (government issuers)

The aforementioned threshold of 0.49% refers to the individual exclusion criterion in each case.

Target funds are also excluded from acquisition if they contain investments of more than 0% in companies that manufacture

- controversial/outlawed weapons (e.g. landmines, cluster bombs, weapons of mass destruction)

II. Strategies of DJE Kapital AG for addressing sustainability risks in investment decisions and in the advisory process³

As part of its investment decision-making and advisory process, DJE Kapital AG takes into account and continuously assesses relevant financial and sustainability risks that could have a significant material negative impact on the return of an investment in the respective fund or portfolio.

The relevant financial risks include in particular (non-exhaustive list):

- **General market risk**
- **Counterparty default risk**
- **Liquidity risk**

These relevant financial and other financial risks are analysed as part of the traditional securities analysis, which is part of the investment process, before an investment decision is made. The audit is based on balance sheet ratios, income statement ratios or fundamental balance sheet and company analyses.

Sustainability risk is also taken into account as part of the fundamental analysis. Due to the increased sustainability risk associated with this, companies that grossly violate the UN Global Compact are excluded. Exclusion reduces the company-specific investment

risk, as risks triggered by violations of human and labour rights or environmental pollution are avoided. Exclusion is carried out with the help of a special database that includes ESG data from other research companies (MSCI ESG Research LLC) as well as in-house research results. The indicators contained in the database are used to calculate an aggregated overall rating for each company based on various sub-areas. On the one hand, this includes the final assessment reached by the analyst based on the fundamental analysis, including consideration of the sustainability risk and personal contact with the company. As with all other sub-areas, the analyst quantifies these with a rating of between -10 and 10. Together with the quality of the dialogue from personal contact with the company, the analyst's assessment is included in the final valuation of the individual security.

DJE Kapital AG may subject the assessment of the database to a review by a committee. When reviewing the assessment of the database, the committee may conclude that the assessment of the database needs to be corrected and investments can therefore be made in the target investment. If existing target investments receive a negative assessment based on an updated analysis and the committee agrees with the assessment of the database, these target investments are generally sold and a notice is issued stating that they cannot be acquired for the time being. During the review, the committee takes into account other criteria such as development prospects with regard to ESG factors, the exercise of voting rights, and general economic development prospects.

In the evaluation model, those companies that counter the sustainability risks to which they are exposed with adequate or even exemplary risk management perform better. This model also takes into account the CO₂ intensity of the companies in order to counteract the risk of a possible environmental or climate-related decline in value ("stranded assets").

Depending on the type of risk, sustainability risks can adversely affect the return on the investment to a greater or lesser degree. Negative triggers can be:

- Physical damage due to extreme weather conditions
- Disproportionately high capital expenditure
- Penalties for non-compliance with applicable laws
- Reputational damage due to disregard for climate and environmental protection or social values and standards

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

However, the negative influence of sustainability risks on the return on investment cannot be completely ruled out.

³ In accordance with Article 3 of the Disclosure Regulation

III. Transparency of adverse sustainability impacts at company level

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

DJE Kapital AG takes into account the most important sustainability factors when making investment decisions and in the advisory process as a financial market participant within the meaning of Article 4(1) a) and as a financial advisor within the meaning of Article 4(5) a) 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.

The principal adverse sustainability impacts considered as part of the investment decision-making and advisory process correspond to those listed in the annex to the Commission Delegated Regulation supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council (not yet officially published), concerning regulatory technical standards specifying the details of the content and presentation of information relating to the principle of avoiding significant harm, the content, methodologies and presentation of information on sustainability indicators and adverse sustainability impacts, as well as the content and presentation of information on the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites, and in periodic reports.

These are:

1. GHG emissions
2. CO2 footprint
3. GHG emissions intensity of the companies in which investments are made
4. Involvement in companies operating in the fossil fuels sector
5. Share of energy consumption and generation from non-renewable energy sources
6. Intensity of energy consumption by climate-intensive sectors
7. Activities that have a negative impact on areas with biodiversity in need of protection
8. Emissions to water
9. Share of hazardous and radioactive waste
10. Violations of the UNGC principles and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises
11. Lack of processes and compliance mechanisms to monitor adherence to the UNGC principles and the OECD Guidelines for Multinational Enterprises
12. Unadjusted gender pay gap
13. Gender diversity in the management and supervisory bodies
14. Involvement in controversial weapons (anti-personnel mines, cluster munitions, chemical and biological weapons)
15. GHG emissions intensity (government bonds PAIs)
16. Countries in which investments are made that violate social regulations (government bonds PAIs)
17. Exposure to fossil fuels through investment in real estate (real estate PAIs)
18. Exposure to properties with poor energy efficiency (property PAIs)

- E4 Investments in companies without initiatives to reduce CO2 emissions (other voluntary PAIs)
- S10 Lack of due diligence (Other voluntary PAIs)

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

b) Measures taken by DJE Kapital AG in connection with the principal adverse sustainability impacts

To systematically ensure compliance with sustainability principles, DJE Kapital AG works with data from MSCI ESG Research LLC, the leading international provider of environmental, social and governance analyses and ratings. The most significant adverse impacts on sustainability factors in investment decisions and in the advisory process are analysed by DJE Kapital AG using internal strategies based on the data provided by MSCI ESG Research LLC.

As already described in the investment process, exclusion criteria are considered first.

On the one hand, this means that the "Environment Climate Flag" criterion for PAIs 1, 2 and 3 must not be set to "red" (exclusion criterion) and must not be set to "red" or "orange" for PAIs 1, 2, 3 and 6 to be assigned to the "Sustainable" category. This indicator measures the severity of controversies related to a company's climate change and energy policies and initiatives. Factors affecting this assessment include previous involvement in legal cases related to greenhouse gases, widespread or egregious impacts due to the company's greenhouse gas emissions, resistance to improved practices and criticism from NGOs and/or other observers.

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

Within the framework of PAI 4, the exclusion criterion "Thermal coal" should be taken into consideration insofar as the revenue from thermal coal must not account for more than 30% of a company's total revenue from production and distribution. To be categorised as sustainable, a company must not be active in the fossil fuel sector.

For PAIs 10 and 11, the "UN Global Compact" criterion must not be set to "fail" and the "UN Global Compact" criterion must be set to "PASS" for the PAI to be classified as sustainable.

Controversial/outlawed weapons are another exclusion criterion for PAI 14.

In addition, PAIs 15 and 16 exclude government bonds whose

issuers 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/>).

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

PAIs in relation to voting are also taken into account.

Engagement and voting methods are used for the two additional PAIs E4 and S10. As there are currently no investments in property, indicators 17 and 18 are not taken into account.

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

The ability to consider the most significant adverse sustainability impacts depends to a large extent on the availability of corresponding information on the market. The required data is not available in sufficient quantity and quality for all assets in which DJE Kapital AG invests through the funds and mandates it manages.

Due to the difficult data situation, DJE Kapital AG initially places the emphasis on investments in shares and/or bonds issued by companies when considering the most significant adverse impacts on sustainability factors when making investment decisions and in the advisory process. The target funds that can be acquired for the respective managed fund may deviate from the investment policy of the respective fund and may not take ESG factors and/or significant adverse impacts on sustainability factors into account when making investment decisions and in the advisory process. The company will regularly review the data situation and decide on the possibility of taking into account the most significant adverse impacts when making investment decisions in other assets and/or other products.

c) **Brief summary of DJE Kapital AG's participation policy**

DJE Kapital AG does not exercise voting rights directly at general meetings. In the case of funds belonging to the Group, however, the voting rights are exercised by the wholly-owned subsidiary, DJE Investment S.A., in accordance with its principles for exercising voting rights. In the meantime, the exercise of voting rights has been transferred to an external partner, Glass Lewis. Further information can be found in the participation policy published on the website www.dje.de.

d) **Compliance with a code of responsible corporate governance**

As a member of the BVI⁴, DJE Kapital AG undertakes to comply with the defined rules of conduct. The Executive Board and Supervisory Board of DJE Kapital AG work towards good corporate governance at DJE Kapital AG in accordance with the rules of conduct. Reporting on DJE Kapital AG is carried out in accordance with regulatory and statutory requirements.

IV. Reviewing and updating the sustainability policy

This sustainability policy is subject to regular review and is updated in line with regulatory requirements and any process and strategy adjustments. The currently valid version of the sustainability policy is published on the DJE Kapital AG website www.dje.de.

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Change history

Significant changes from version 02/2021 to 07/2021:

Introduction: Text adaptation:

3 a) Identification and weighting of significant adverse sustainability impacts and sustainability indicators:

Further specification of the exclusion criteria in relation to corporate revenue

3 b) Measures taken by DJE Kapital AG in connection with the principal adverse sustainability impacts:

Inclusion of exclusion criterion for government issuers (Freedom House Index)

Significant changes from version 07/2021 to 08/2022:

Introduction: Text adaptation:

As a result of the investment process newly established at DJE Kapital AG from August 2022, environmental or social characteristics will be promoted in the investment strategies managed by DJE Kapital AG or for other specific financial instruments in almost all products.

1. Integration of sustainability factors and ESG factors in the investment process of DJE Kapital AG
2. Exclusion criteria
3. Methods for environmental or social characteristics
4. Engagement
5. Exercise of voting rights at annual general meetings
6. Consideration of adverse sustainability impacts, formally known as Principal Adverse Impacts (PAI)
7. Sustainable Development Goals (SDG) and
8. Principle of "Do no significant harm" (DNSH)
9. Breakdown of investments into different categories

2) DJE Kapital AG's strategy for addressing sustainability risks when making investment decisions:

Text adaptation:

Description and consideration of the MSCI ESG score

3 a) & b) Identification and weighting of the principal adverse sustainability impacts and sustainability indicators:

Text adaptation:

Description, enumeration and consideration of adverse sustainability impacts in the DJE investment process

3 c) Brief summary of DJE Kapital AG's participation policy

Exercise of voting rights by Glass Lewis

Significant changes from version 08/2022 to 01/2023:

On 3 e), Integration of sustainability factors and ESG factors in the investment process of DJE Kapital AG aa) Exclusion criteria:

Text adaptation:

The term conventional weapons is replaced by armaments.

Significant changes from version 01/2023 to 06/2023:

Entire document:

Addition of the terms financial advisor and advisory process.

Significant changes from version 06/2023 to 08/2023:

1 f) Description of the exclusion criteria within the framework of the DJE target fund concept

Significant changes from version 08/2023 to 06/2024:

Editorial changes

Significant changes from version 06/2024 to 02/2025:

Editorial changes

3 a) Identification and weighting of the principal adverse sustainability impacts and sustainability indicators:

Supplementary listing of PAIs 17, 18, E4 and S10

3 b) Measures taken by DJE Kapital AG in connection with the principal adverse sustainability impacts:

Supplementary description of the methods in connection with PAIs 17, 18, E4 and S10