ACTIVE OWNERSHIP REPORT 2022

Active Ownership

Flossbach von Storch


Know your Companies

ACTIVE OWNERSHIP
=
ENGAGEMENT
+
VOTING

As **active owners**, we see ourselves as constructive sparring partners for the companies we invest in and responsible trustees for our clients. In personal **exchanges** (engagement), we discuss socially relevant and critical issues for companies. We lend weight to our position by exercising our **voting rights**. Within the framework of a dedicated **active ownership process**, we analyse and accompany the development of our investments. Our analysts and portfolio managers are responsible for all measures as an active corrective from a single source. Detailed information can be found in our guidelines on the exercise of voting rights and regarding our engagement, as well as our sustainability policy on the following websites: www.fvsinvest.lu and www.flossbachvonstorch.de.

Active Ownership Process

Divestment

PHASE 1

Identification of conflicts that permanently impair the value of the company

PHASE 2

Prioritisation of conflicts according to the strength of their impact on the company value

PHASE 3

Development of a meaningful roadmap for resolving conflicts

PHASE 4

Constructive discussion of the roadmap with the Executive Board

PHASE 5

Observation and **Evaluation** of the changes achieved

PHASE 6*

Exercise of voting rights or disposal of the holding if targets are not met

* Only relevant for Flossbach von Storch mutual funds

Our role as an active owner

Engagement and voting are important prerequisites for sustainable investing.

As trustees of our clients' assets, we consider it our duty to actively represent their interests in our portfolio companies. For us, the exchange with the management of our investments, as well as the exercise of our voting rights, are important components of our work, which have an impact on the quality assessment of our investments.

As part of a dedicated active ownership process, we analyse and accompany the development of our investments. Serious (ESG) risks that could have a long-term impact on their business development are thus identified at an early stage and discussed intensively with the management. We see ourselves as a constructive sparring partner (where possible) or as a corrective function (where necessary) and see our task as making constructive suggestions in order to accompany the management in the implementation of necessary measures. If the critical points for us are not sufficiently perceived and there are no signs of a positive development in the long term, we reduce or sell the holding.

We lend weight to our position by exercising our voting rights. In doing so, we support all measures that permanently increase the value of a company in the interests of investors and vote against, or have votes cast against, those that run counter to this goal. As soon as we hold more than 0.5 per cent of a company's share capital, or when significant agenda items are up for decision, we exercise our voting rights in accordance with defined criteria and in line with our investment philosophy.

It is our mission to fully understand and continuously follow all the companies in which we invest. We therefore rely on a focused investment universe and concentrate on a limited number of companies; this gives our analysts and portfolio managers both the opportunity and sufficient time to ensure progress and compliance with jointly defined objectives.

Sustainability has always been
an elementary component
of our investment process.

Foreword

Companies must deal responsibly with the consequences of their global activities.

The world seems to be in permanent crisis mode – and the end is not in sight. The Ukraine war, the energy crisis, the central banks' fight against inflation and the resulting collateral damage – there is no shortage of danger spots.

As an active asset manager, we look after around EUR 70 billion. We take our responsibility for the assets entrusted to us seriously and also focus on the resulting opportunities as active owners. We have always accompanied the companies in which we invest – constructively and critically. The importance of this role becomes particularly clear in times of crisis. In order to live up to this responsibility, we have consistently developed our engagement strategy over the past year.

Sustainability is a central component of this, which we examine in more detail on the basis of environmental and social criteria, as well as questions of good corporate governance: ESG criteria (Environment, Social, Governance). Companies must deal responsibly with the consequences of their activities and actively counter negative impacts. Possible risks such as CO_2 pricing or a shortage of skilled workers must be recognised at an early stage so that they do not have a lasting negative impact on the value of the company.

Independent in thought and action

We do not outsource the responsible handling of the topic of sustainability but deal with it critically. In order to keep an eye on the risks – but also the opportunities – of the companies we invest in, we have successively expanded our ESG analysis. Within the framework of an in-house analysis, we evaluate how companies deal with their social and ecological footprint. In doing so, we pay particular attention to good corporate governance, which is responsible for the sustainable development of a company.

We are convinced that no two companies are alike and therefore do not apply rigid filters but look at each company individually. Monitoring is also not based on rigid bandwidths or thresholds that companies must comply with or achieve. Rather, we pay attention to a positive development in dealing with sustainability indicators such as greenhouse gas emissions and work towards this as an active owner where possible and where necessary.

No two companies are alike, so we therefore do not apply rigid filters.

We place a special focus on achieving climate goals and on responsible entrepreneurship. We expect each of our companies to:

- make its contribution to the Paris Climate Agreement
- and stand up for universal values.

To underline the importance of this, in August 2022 we made a commitment as part of our house-wide investment strategy to work towards positive development in these areas as an active owner. As a long-term investor, our motivation is to accompany companies on their way to sustainable business practices for the benefit of all stakeholders. This is an important part of our work, which has an impact on the quality of the investments and can contribute significantly to the success of an investment.

On the following pages, we explain which criteria and goals we have set ourselves and which measures we have already initiated as part of our commitment. The annual Active Ownership Report provides an insight into the progress of our activities.

Climate targets

Everyone must make a contribution

Climate change is a global challenge. Sustainably successful companies understand that they can and must contribute to the solution. We actively engage with “our” companies to develop and implement change processes.

Without innovation, climate change cannot be stopped.

The necessary decarbonisation of our economy and our lifestyles to drastically reduce greenhouse gas emissions is slow. As long-term investors, we see it as our task to accompany the companies in which we invest on the path to “Net Zero”. For companies, this means operating in a way that conserves resources as much as possible. Each company has a different level of efficiency.

Technology companies such as Alphabet and Microsoft are very electricity-intensive, and we are making sure that the transition to renewable energies is successful. More far-reaching is the influence of CO_2- and raw material-intensive business models, for example, from the automotive industry. As an active owner, we therefore exchange views with Mercedes-Benz and BMW, not only on the urgent expansion of renewable energy, but also on resource-conserving production and the development of alternative drive concepts for sustainable mobility. Because without innovations, climate change cannot be stopped.

Actively counteracting tomorrow’s sustainability risks today

Companies that do not implement measures to decarbonise and increase their energy or water efficiency today are increasingly exposed to greater risks. High energy prices, CO_2 pricing or a possible threat to production security due to water shortages – the challenges are multifaceted and cannot be solved in the short term. They must be recognised at an early stage and tackled by means of transformation processes. This is the only way to ensure the sustainable success of a company.

Companies must operate in a way that conserves resources as much as possible and set themselves far-reaching climate targets.

In order to be able to evaluate their action plans in the best possible way, we look at each of our companies individually as part of our in-house ESG analysis. In doing so, we observe and evaluate the strategies and goals of the companies based on data and the answers to the following questions, among others: what are the opportunities and risks? What goals are set? What measures have been initiated? And among the most important: which goals have already been achieved? This enables us to form an independent opinion on how the companies deal with their ecological footprint.

Climate targets – the direction must be right

This footprint is measured, among other things, on the basis of greenhouse gas emissions associated with the companies' activities. These are categorised into so-called Scope 1, Scope 2 and Scope 3 emissions (see explanation).

The evaluation of the development of these values is not based on rigid bandwidths or thresholds that a company must comply with or achieve. Rather, we make sure that a positive development is recognisable, i.e. that a reduction in CO_2 emissions is taking place and that compliance with the set targets is becoming apparent. It is also important to us that not only long-term targets, such as net zero emissions in 2040 or 2050, are agreed upon, but also short-term milestones, such as halving emissions by 2030 or 2035, are defined. These interim targets must be reviewed regularly and adapted to current developments and circumstances.

* **Scope 1** includes greenhouse gas emissions caused directly by companies. These include emissions from energy sources, such as natural gas or the operation of boilers and furnaces. Emissions from own vehicle fleets are also included under Scope 1.
Scope 2 are indirect emissions from purchased energy consumed by a company, such as electricity, cooling energy and district heating.
Scope 3 covers all indirect greenhouse gas emissions that occur along a company's value chain. These include emissions associated with purchased goods or services.

Our responsibility as an active owner

If we identify deficits in the strategy or negative trends in the course of our ESG analysis, we discuss these with the companies as part of a dedicated active ownership process. In the first step, we focus primarily on companies that have not yet set any or sufficient climate targets. Although this only affects a few in our investment universe, it is all the more important to formulate clear expectations for these companies as an active owner and to work towards implementing climate goals in the corporate strategy.

The latest climate report of the UN Climate Council IPCC* makes it clear that current emission reductions are not sufficient to limit global warming to 1.5 degrees. The serious consequences affect us all – and therefore everyone must make a contribution: politics, business, science, society as a whole. We are aware of this obligation and are rising to the challenge!

As part of our in-house ESG analysis, we assess the degree of climate initiatives of “our” companies. The following distribution includes the assessment of all companies in our investment universe. “Yes” covers companies with targets in line with the Paris Climate Agreement. “Not in line” covers companies with climate targets that are not yet in line with the Paris Climate Agreement. “No” covers companies that have not yet published a commitment.

* Synthesis Report of the Sixth Assessment Report of the IPCC – Inter-governmental Panel on Climate Change

Excerpt of commitment activities
Climate goals

Pinterest

The company had not yet formulated any climate targets by the end of 2022. In a letter to Pinterest's Head of Investor Relations, we formulated the concrete expectation that the company must commit to reducing greenhouse gas emissions in the long term. At the beginning of 2023, Pinterest published its first sustainability report and committed to concrete climate targets in line with the Paris Climate Agreement.

Mercedes-Benz Group

The company's production is energy-intensive; efforts to successively increase the share of renewable energy are not yet far advanced. In the course of several telephone calls with the management (CEO and CFO), the concrete expectation was formulated that the company would reduce its energy consumption and push the switch to renewable energies more strongly.

Brenntag

The company had not formulated any climate targets at the beginning of 2022. In a personal meeting with a member of the Supervisory Board, we formulated the concrete expectation that the company commits to reducing greenhouse gas emissions in the long term and publishes concrete climate targets. During the meeting, we were assured that the company was aware of its responsibility and that a strategy was being planned. Brenntag published a detailed sustainability strategy for the company before the end of 2022, which is in line with the Paris Climate Agreement.


active

Corporate governance

The right values compass

Companies must take the interests of all stakeholders into account.

Globalisation has brought prosperity to many emerging countries – and thus to millions of people. However, there are also downsides, as illustrated by examples of production sites with inadequate labour and environmental protection. As an investor, we make sure that globally active companies act responsibly. This includes that companies represent a clear set of values and take into account the concerns of all interest groups.

The world as we know it today is a world of networked systems and global structures. It brings people and cultures together, creates economic spaces and is an engine for innovation. To ensure that this engine does not falter, we believe it is important for companies to act according to universal values, such as respecting human rights, promoting sustainable prosperity and protecting our planet.

As a long-term investor, we make sure that companies anchor processes in their corporate structures in order to comply with value standards. In doing so, we focus primarily on how companies deal with principles that are of particular relevance to them. For example, if we look at companies in terms of their "consumer interest", for a software company like Salesforce the security of personal data is particularly important, whereas for a pharmaceutical company like Novartis the health and safety of patients is paramount. Such a focus not only prevents risks, but also creates opportunities.

Global companies can have a huge impact on their focus issues. Textile companies like Adidas source most of their products from low-wage countries. As global corporations, they can make an important contribution to improving working conditions and occupational safety.

Our role as an active owner

As an active owner, we work towards a positive approach to deficits.

To ensure that “our” companies are managing their supply chain responsibly, we monitor and evaluate the companies’ strategies, promises and activities as part of our in-house ESG analysis. This enables us to identify potential abuses at an early stage and act accordingly.

If deficits are identified in the companies, we work as an active owner towards a positive approach and an improvement of the circumstances. We see ourselves as a constructive sparring partner (where possible) or as a corrective function (where necessary), make appropriate suggestions and support the management in implementing them.

Internationally recognised initiatives, such as the United Nations Global Compact (UNGC) and the Organisation for Economic Cooperation and Development (OECD), provide guidance. They formulate principles and guiding principles to address social, economic and environmental challenges and promote international standards of action.

To underline the importance of these initiatives for our actions, we have anchored in our investment guidelines to exclude companies that show **“serious violations without a positive perspective”** of the UN Global Compact (see UNGC execution on page 17) from our investment universe.

As clear as this commitment may seem, it does pose a challenge: for the principles of the UN Global Compact do not represent a certified standard or a regulatory instrument. Instead, the UN Global Compact sees itself as a dialogue platform for companies. Accordingly, the UNGC initiative does not keep an official register of whether and to what extent a company violates the principles.

United Nations Global Compact

The United Nations initiative has set itself the goal of initiating change processes in companies and strategically anchoring sustainability. The UN Global Compact supports companies in acting responsibly on the basis of ten principles and in promoting solutions to achieve the Sustainable Development Goals. The ten principles of the United Nations Global Compact set thematic priorities in the areas of **Human Rights, Labour Standards, Environment & Climate as well as Corruption Prevention**.

– 1 –
Businesses should support and respect the protection of international human rights.

– 2 –
Businesses should ensure that they are not complicit in human rights abuses.

– 3 –
Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

– 4 –
Businesses should work for the elimination of all forms of forced labour.

– 5 –
Businesses should work for the abolition of child labour.

– 6 –
Businesses should work to eliminate discrimination in employment and occupation.

– 7 –
Businesses should follow the precautionary principle in dealing with environmental problems.

– 8 –
Businesses should take initiatives to promote greater environmental awareness.

– 9 –
Businesses should accelerate the development and diffusion of environmentally friendly technologies.

– 10 –
Businesses should work against all forms of corruption, including extortion and bribery.

We are independent in thought and action

It is our endeavour to form our own opinion.

So when is the UN Global Compact violated and how are serious violations and positive perspectives measured? There is no universally valid answer to these questions. This is shown by the sometimes significantly divergent assessments of the relevant rating agencies on this topic.

Therefore, we do not want to take the easy way out and follow the judgement of third parties without reflection. Rather, it is our endeavour to form our own opinion on potential controversies, especially on topics where there is no blanket "right" or "wrong". Since we focus our analysis on a limited number of companies, we have both the resources and the time to conscientiously evaluate "our" companies and follow developments.

We speak of a **"serious violation without a positive perspective"** when concrete cases of wrongdoing become known, but the company cannot credibly demonstrate that it has introduced sufficient processes and measures to remedy these incidents. We consider this to be a sign of poor corporate governance and thus a clear exclusion criterion.

For us, a **positive approach** is when a company actively works to remedy a problem. We continuously monitor the efforts and measures and constantly reassess the situation – always with a view to the central question: is an improvement in the situation recognisable, are successes of the measures visible?

As one of the leading bank-independent asset managers in Europe, we are listened to by the top management of "our" companies. We meet each other at eye level. This facilitates exchange and helps us to fulfil our responsibility as a fiduciary for our investors and to make our contribution to a more "sustainable" world.

Extract of engagement activities
UNGC violations

Activision Blizzard

The company was charged with equal pay violations, gender discrimination and sexual assault in the USA in 2021. We had reported on this in our Active Ownership Report 2021. For us, a clear violation of UN Global Compact Principle 6, according to which companies should work to eliminate discrimination in employment and occupation.

In order to work towards a positive development and elimination of the violations, we also maintained an intensive exchange with the company in 2022. In doing so, we formulated clear demands on the management to intensively pursue the measures introduced to improve the situation and to create more transparency in reporting. The measures taken, such as the introduction of a zero tolerance policy and the implementation of an anonymous reporting process, are important steps to improve the corporate culture in the long term.

In order to work forcefully for improvement, we exercised our voting rights and voted against the re-election of CEO Robert A. Kotick at the AGM on 21 June 2022.

We will continue to communicate regularly with management and the Head of Investor Relations and monitor developments as part of our ESG analysis.

Technology sector

Criticism of remuneration structures

Many companies in the technology sector have compensated their employees with generous share packages in recent years – at the expense of existing shareholders. We have discussed with the management of "our" companies about the proportionality as well as the partly misleading reporting of the companies on this.

The technology sector brings back memories of the excesses at the turn of the millennium.

Share-based remuneration models have always been widespread among technology companies. In recent years, however, they have reached proportions that bring back memories of the excesses of the technology bubble at the turn of the millennium.

For the 10 largest technology companies in the USA included in the S&P 100 alone, share-based remuneration expenditure was around USD 75 billion over the past four reporting quarters. Since 2017, it has totalled USD 276 billion. This represents 21 per cent of free cash flow. For the other 90 stocks in the index, it is only seven per cent.

Battle for talent (?)

Companies often say that share-based remuneration is a necessary means of motivating employees. They expect a better identification with the company, greater loyalty, and see the share component as an important tool in the fight for talent, which demands ever-higher salaries.

There are 187,000 "talents" at Google parent company Alphabet alone. Similar to their colleagues at Meta, they draw an average salary of USD 200,000 and also receive stock options, most recently the equivalent of USD 100,000.

However, the employees obviously do not see themselves as co-owners of the company but sell their shares immediately after the vesting period. This has nothing to do with the actual intention of binding employees to the company in the long term.

Many employees sell their shares directly after the vesting period.

The "free" cash flow is not so "free" at all

The money for the share buybacks, which are intended to reduce the dilution of existing shareholders, comes from the free cash flow, which by definition remains after deducting all costs and investments. The company can distribute this to shareholders in the form of dividends, retain it (and thus increase liquidity or reduce debt), spend it on acquisitions or use it to buy back its own shares.

The latter reduces – *ceteris paribus* – the number of shares in circulation and increases the share of existing shareholders. However, if the repurchased shares are transferred to employees to service share entitlements, they are personnel costs. The reported free cash flow is therefore not so free at all because it is partly used to cover personnel costs.

A vivid example of this is Meta, the parent company of Facebook. In the past five years, the corporation has bought back 371 million shares and paid USD 90 billion for them. However, the number of outstanding shares has only been reduced by 243 million. A further 128 million shares with an equivalent value of USD 29 billion were issued to employees and, in addition, the income tax of USD 18 billion incurred on these shares was paid. In total, therefore, USD 47 billion.

We expressed our displeasure about the inappropriate handling and non-transparent presentation of share-based remuneration in letters and conversations with numerous managers. In addition to Meta, these included companies, such as Etsy, Amazon and Adobe.

The boom is over (for now)

Since the beginning of the pandemic, hundreds of thousands of employees have been hired at a breath-taking rate. Alphabet alone has given around 70,000 new employees stock awards, some of them very generous, between 2020 and 2022.

Now the tide is turning; companies are struggling with flattening growth and the high costs of an excessive expansion policy. The days of growth at any price are over. Office space is being reduced, thousands of employees are being laid off again. In total, US technology companies have already cut about 150,000 jobs, which in some cases corresponds to 10 to 15 per cent of the workforce. The associated costs will be digested in the past and coming quarters.

Engagement 2022

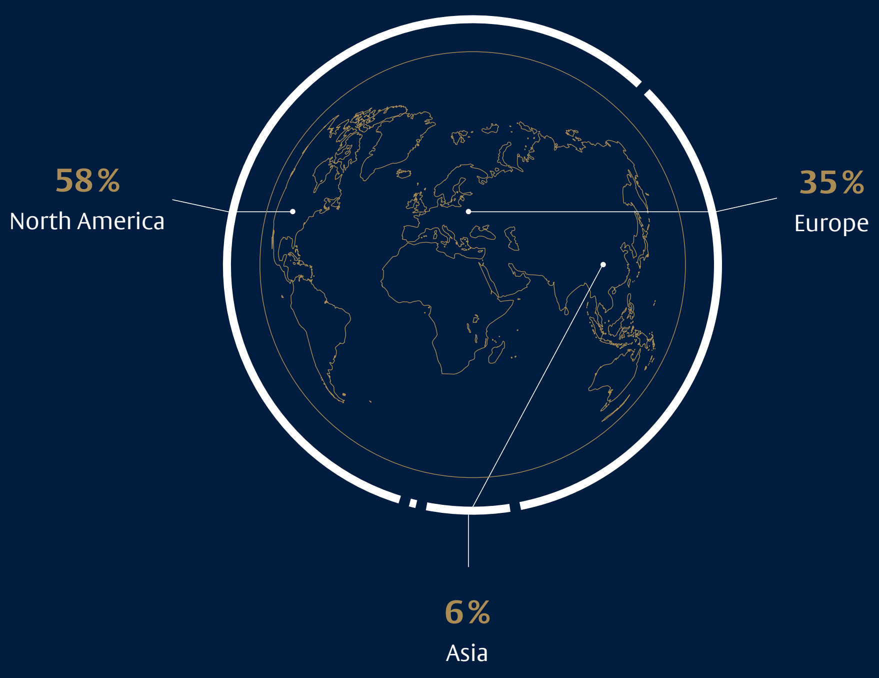
We held more than 160 intensive discussions with companies in 11 countries in 2022. These took place mainly as individual discussions at board level, but also with the investor relations and sustainability managers.

The focus was on governance issues, such as the remuneration system for technology companies described on pages 20/21. There was also targeted engagement in connection with the planned takeover of Univar by Brenntag (see the report on page 23).

Furthermore, in 2022 we committed ourselves to working towards a positive development in terms of greenhouse gas reduction at our invested companies. In this context, we have started an active exchange with those companies that have not yet set themselves climate targets or for which we are convinced that the formulated targets are not yet comprehensive enough. With this long-term commitment, we, as an active owner, want to raise awareness of the relevance of reducing greenhouse gas emissions and switching to renewable energies and accompany the companies on the way to achieving the climate targets they have set themselves.

An intensive exchange with company leaders is firmly anchored in our investment process.

Geographical distribution of our engagement activities (key areas)



Excerpt engagement activities
Takeovers

Brenntag

At the end of November 2022, it became known that the company was examining the takeover of its US competitor Univar. As such a transaction could have been carried out without the approval of the shareholders on the basis of existing anticipatory resolutions, we clearly opposed a takeover vis-à-vis the Board of Management and the Supervisory Board, as well as in public, as this would only have been possible for Brenntag with a massive dilution of the existing shareholders and a significant deterioration of the balance sheet. In addition, in our view, the merged company would have suffered considerable sales losses, as many suppliers as well as customers would have had to switch to other distributors due to the concentration created by the merger in order to avoid becoming too dependent. In our opinion, these negative effects would have more than eroded potential synergies. For us as Brenntag shareholders, the sense of this takeover was therefore incomprehensible. At the beginning of January 2023, the company announced that it would not pursue a takeover of Univar any further. We remain in close contact with the management to discuss and closely accompany the company's further strategy.

Voting 2022

The exercise of voting rights is an integral part of our investment process and an important tool to express our position. To underline the importance, we continue to build our voting record. In 2022, for example, we voted at 69 ordinary and extraordinary general meetings in 10 countries.

In order to further strengthen the focus on ESG issues in the future, we sharpened our voting policy at the beginning of 2023 and expanded our catalogue of criteria to include targeted sustainability aspects, such as ESG targets in Executive Board remuneration. In addition, transparency in reporting plays a major role for us. Therefore, we have explicitly included the relevance of sustainability reports in our voting rights policy.

Voting History

Number of Annual General Meetings in which we participated

2020	2021	2022
33	48	69

Geographical distribution of our voting activities (key areas)

Extract Exercise of voting rights 2022

Activision Blizzard Santa Monica, California, USA

Extraordinary General Meeting of 28 April 2022

- We approved the takeover plans of Activision Blizzard by Microsoft. We hope that the integration into the Microsoft Group will have a positive effect on the corporate culture at Activision Blizzard. In addition, we are convinced that the acquisition will generate value by, for example, being able to distribute Activision Blizzard's games to a larger audience.

Annual General Meeting of 21 June 2022

- We voted against the re-election of CEO Robert A. Kotick in order to express our concerns about raising awareness of equal pay, gender discrimination and sexual assault violations and to maintain the high relevance of dealing with them responsibly.
- We approved the shareholder proposal to publish a report on sexual harassment and discrimination.

3M Co. Saint Paul, Minnesota, USA

Annual General Meeting of 10 May 2022

- We voted against the management compensation ballot item due to the adjustments in the CEO's management compensation. CEO Mike Roman's total remuneration in 2021 was USD 18.2 million, around USD 2.5 million below the previous year. Given the only moderate operating performance, we consider the reduction in management compensation to be justified in principle, but it should be noted that the reduction is due to a smaller change in pension benefits and not a reduction in short- and long-term bonuses. These have increased, which is incomprehensible to us in view of the moderate operational development.

Unilever PLC London, United Kingdom

Annual General Meeting of 5 February 2022

- We abstained from voting on the re-election of CEO Alan Jope. We had actively opposed his planned takeover of GlaxoSmithKline's consumer goods division in the run-up to the election, as in our view this would not have been in the best interest of the shareholders, both financially and strategically. Since against this background our confidence in the management is strained, but at the same time we were unable to propose a suitable alternative candidate, we abstained from voting for Alan Jope.

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Frederike von Tucher joined Flossbach von Storch's Investment Management team as an ESG Specialist in October 2019. She is responsible for Flossbach von Storch's sustainability strategy and commitment to the internationally recognised UN Principles for Responsible Investment (PRI). A graduate in cultural management, she has spent her professional career over the past 15 years in various positions and sectors in the field of communication and project management.

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