

# Konwave Responsible Investment Policy

## Purpose & Philosophy

The purpose of Konwave is to protect and enhance our clients' financial future. We want to be an ESG leader in the European fund industry in the area of mining and that is why sustainability is of eminent importance to us, both in the investment process and in dealing with employees, customers and resources. Our core values of integrity, collaboration and excellence are central to how we deliver on our purpose and strategy. As active investors, we believe the inclusion of environmental, social and governance (ESG) factors and research in the investment process is integral to fundamental financial analysis. This includes identifying and evaluating sustainability risks, opportunities and impacts. Our stewardship focuses on using our influence to create long-term, sustainable value and better outcomes for our clients, society and the environment. Our sustainability officer and his deputy act as a center of expertise on ESG issues, working alongside investment managers to support ESG research and engagement.

## ESG Integration

We believe long-term sustainable returns are dependent on stable, well-functioning and well governed social, economic and environmental systems. Since 2012, ESG criteria have been integrated into the investment decision-making process and have always been an integral part of the fundamental assessment of mining companies. This is done out of the conviction that only mines that operate in an environmentally friendly manner, with a social licence and a strong stakeholder management, are successful in the long term.

### Key sustainability factors

As active investors, we use fundamental analysis, supported by independent ESG data and research and our own engagement with mining companies, to identify, evaluate and prioritize key sustainability factors. We do this to identify and manage the risks associated with sustainability factors, such as an environmental, social or governance factors. This allows us to engage with the management to increase the focus on ESG factors if necessary or to avoid investments in ESG laggards. Mining companies not focusing on ESG factors will have economic problems in the mid/long term that causes an actual or a potential material negative impact on the value of the investment. It also enables us to understand the opportunities or potential competitive advantage associated with the management of these factors, supporting the transition to a low carbon economy or delivering on the UN Sustainable Development Goals.

### Environment

Environmental factors include those relating to the use and availability of natural resources, including water consumption or triggered water stress, CO2 emissions, pollutant emissions, energy efficiency, pollution and waste. Risks relating to biodiversity may result from a dependency on natural ecosystems, which are under threat including from deforestation, land degradation and unsustainable activities, or a negative event which results in serious harm to biodiversity.

## **Climate change**

We support the 2015 Paris Agreement goal of limiting global warming to 1.5 degrees Celsius and we seek to integrate relevant physical and transition climate-related risks and opportunities into our investment decision making. We look to companies to have appropriate governance, strategy, risk management and disclosure relating to GHG emissions and impacts along a company's value chain.

## **Social**

Social factors include those relating to diversity and inclusion, health and safety, human rights and labour standards within direct operations, the supply chain and in products and services offered. Social risks may result from the mismanagement of employees, health and safety related closures or reputational risks associated with poor labour practices. In addition to protecting basic human rights, we look to companies to have appropriate policies, procedures and disclosures in place to manage these risks.

## **Governance**

Governance factors include consideration of board structure and independence, alignment of remuneration, transparency of ownership and control and accounting. Risks may also arise from poor corporate culture or bribery and corruption issues.

## **UN Global Compact**

We are supporters of the UN Global Compact and the ten principles in the areas of human rights, labour rights, the environment and anti-corruption derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. Any serious breaches of these principles will result in enhanced due diligence.

## **Tools and data sources**

We use independent ESG data and research providers, third party research and public data from organizations to support our fundamental analysis. Direct engagement can also play a key role in receiving information where there are data gaps. We recognize that there are limitations in the quality, comparability and availability of ESG data. We encourage improved disclosure through engagement with data providers on quality and new methodologies, companies and support for regulation supporting improved disclosure on ESG issues. We review our ESG data providers regularly and review new data or research sources on an ongoing basis.

## Active stewardship

Stewardship and the principles of good governance are central to our approach to responsible investment. As investors, we recognize our stewardship responsibilities and use our influence to encourage companies to focus on long-term, sustainable value creation and to positively influence the outcomes for our clients, society and the environment.

### Voting

Voting is a fundamental part of active asset management. We aim to vote all shares for which we have voting authority. In principle, we follow the ISS (Institutional Shareholder Service) recommendations. In very rare cases where ISS recommendations are not in line with ESG guidelines (especially governance) or are not aligned with the interests of our investors, we may vote differently.

### Engagement

Engagement is an essential and integral part of our investment strategy. The aim of our engagement is to identify and reduce ESG-related risks and controversies in the form of constructive dialog with the company concerned. We live active ownership. We generally meet our portfolio companies 1 – 2 times a year. At these meetings, ESG and CO2 factors and any potential for improvement are actively addressed.

Konwave calls on companies to continuously improve their ESG practices in order to create long-term “value” for stakeholders and take responsibility for the planet. In this context, companies are expected to develop a coherent sustainability strategy that is aligned with their overall corporate strategy. We monitor the companies. In subsequent meetings with management, we check whether the targets set have been achieved, discuss the progress made and check whether the sustainability strategy is still on track.

The most important points of an engagement contact are recorded chronologically in the Konwave Engagement Journal. In addition to the management interviews, a comprehensive questionnaire (Konwave ESG Questionnaire) sent to the companies serves as a tool for the engagement process.

The following engagement guidelines apply:

- The investment manager and/or ESG officer discuss relevant ESG issues with the company.
- The company must show willingness to improve on critical ESG issues. If this is not the case, the position must be sold within 6 months or no investment in the company is allowed.
- If the willingness to improve is shown, the investment manager and/or ESG officer checks whether progress has been made in the relevant ESG topics one year later.
- If there is no improvement after one year, the company is asked to improve again. In addition, the company is informed that the position must be sold without noticeable ESG progress. In this situation the position may not be increased any more.
- After a further year at the latest, improvements must be clearly recognizable, otherwise the position must be sold within 3 months.

## Exclusions

We are in alignment with exclusion criteria SRI (Socially Responsible Investing). These are alcohol, adult entertainment, civilian firearms, controversial weapons, conventional weapons, gambling, genetically modified organisms, nuclear weapons, nuclear power, tobacco and thermal coal. Regarding thermal coal, we exclude companies with large exposure to fossil fuels and especially thermal coal. The maximum portfolio exposure to thermal coal is 1% and to metallurgical coal 2% (Lookthrough NAV exposure).

In addition, we exclude companies having their mines and/or key projects in countries with high ESG risk, such as China and India.

## Industry standards, codes & guidelines

We support international standards, codes and guidelines relating to sustainability issues where we consider they represent a framework for good practice and/or are effective in improving sustainability standards and performance. These include:

### **Principles for Responsible Investment (PRI)**

The PRI, an UN-supported network of investors, works to promote sustainable investment through the incorporation of environmental, social and governance factors. We are signatories to the PRI and support the six principles including the integration of ESG issues into investment analysis and decision making, as part of our commitment to be active owners and supporters of improved disclosure.

### **UN Global Compact**

We are supporters of the UN Global Compact and the ten principles in the areas of human rights, labour rights, the environment and anti-corruption derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. Any serious breaches of these principles will result in enhanced due diligence comprising a deeper review of the issues flagged including engagement with the company where appropriate.