Strategy for dealing with sustainability risks and consideration of sustainability factors at fair-finance Asset Management ltd.

(in accordance with Regulation (EU) 2019/2088 on sustainability-related disclosure requirements in the financial services sector)

Introduction and Applicability

The Disclosure Regulation on sustainability-related disclosure requirements in the financial services sector (Sustainable Finance Disclosure Regulation, SFDR) has been mandatory throughout the EU since March 10th, 2021. The SFDR aims to create transparency and comparability at product and company level by harmonizing the information to be disclosed. The areas covered are the integration of ESG risks, the consideration of adverse ESG impacts, the promotion of social and environmental characteristics of sustainable investments, pre - contractual information and periodic disclosures. The SFDR applies to financial market participants and financial advisers.

fair-finance Asset Management is committed to the topic of sustainability. Since the company was founded, the high priority given to sustainability has been a decisive factor in all areas of the company. fair-finance Asset Management is in scope of the definition of a financial market participant and must comply with the provisions of SFDR.

General information on the Disclosure Regulation

By ratifying the Paris[1] Agreement, the participating countries have committed themselves to limiting global temperature rise to well below 2°C or, if possible, to 1.5°C compared to pre-industrial levels. To achieve these goals and reduce the impact of climate change, the European Commission has published a comprehensive action plan to finance sustainable growth[2] and the European Green Deal[3]. Part of this action plan provides for the reduction of information asymmetries in the relationships between customers and financial market participants or financial advisers with regard to the inclusion of sustainability risks, the consideration of adverse sustainability effects, the promotion of environmental or social characteristics and with regard to sustainable investments. These information asymmetries should be eliminated through mandatory pre-contractual information and periodic disclosures by financial market participants and financial advisers to end investors. SFDR also obliges financial market participants and financial advisers to publish strategies concerning the integration of sustainability risks in their investment decision-making processes.

Disclosure of strategies to consider sustainability risks according to Art. 3 Regulation (EU) 2019/2088

For us as fair-finance Asset Management, responsible business activity with high sustainability standards is a matter of course within our product and services portfolio.

For fair-finance Asset Management, the consideration of sustainability aspects also includes the consideration of sustainability risks in investment decision-making processes. Sustainability risks refer to events or conditions in the environmental, social or governance areas – hereinafter referred to as „ESG“–, the occurrence of which could actually or potentially have a material negative impact on the value of an investment within our customers‘ portfolios.

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[1] https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

[2] https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en#action-plan

[3] https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

Sustainability risks do not represent a separate type of risk, but rather affect the existing types of risk and are accordingly taken into account as part of the investment and risk management process. Various strategies and processes ensure that sustainability risks are included in investment decisions.

fair-finance Asset Management has implemented suitable processes and methods for the identification and assessment of sustainability risks and their effects on existing types of risk. Sustainability risks are evaluated and monitored on a regular basis by integrating them into the risk assessment process.

We include sustainability risks in the investment process by, among other things, applying the Group's exclusion criteria, which are based on the sustainable investment guidelines of fair-finance Vorsorgekasse AG. The investment guideline of fair finance Vorsorgekasse AG lists 22 no-gos for companies, 13 for countries and 14 for real estate. If a criterion applies, no investment is made or, conversely, a divestment of existing positions if a negative change is detected.

Taking sustainability risks into account is part of fair-finance's investment activities and is included at an early stage in the selection of potential financial products and financial instruments. In its investment activities, fair-finance Asset Management generally strives to keep sustainability risks as low as possible by means of risk diversification and the use of suitable strategies (e.g. exclusion criteria). In this way, the number of financial products and financial instruments with potentially high sustainability risks is limited.

Depending on the mandate, the following strategies are used to incorporate and reduce sustainability risks:

- Exclusion criteria / norm-based screening and positive criteria

Exclusion criteria refer to the deliberate exclusion of countries, industries, business activities, companies or products from an investment portfolio because they do not comply with international norms or standards or with certain values or ethical principles within our own organization.

Positive criteria are based on the identification of countries, industries, business activities, companies or products in which investments are preferred due to the fulfillment of certain sustainability criteria.

fair-finance Asset Management acts voluntarily according to the sustainable investment guideline of fair-finance Vorsorgekasse AG, which includes both exclusion and positive criteria. This guideline was developed together with an advisory board and is updated and further developed on an ongoing basis.

- ESG integration ESG integration as a holistic approach describes the explicit inclusion of sustainability criteria in traditional financial and risk analysis and their consideration in all investment decisions. In this way, the more short-term oriented financial analysis is supplemented by significant, longer-term influencing factors. As part of a comprehensive due diligence review of investment products, fairfinance Asset Management ensures that ESG criteria are systematically included in the stock selection process by external fund managers.

- Best-In-Class approach

The Best-In-Class approach evaluates the best companies within an industry, category, or class - based on ecological, social and governance criteria – in order to highlight those companies that are industry leaders in environmental, social, and ethical terms. In this way, companies are encouraged to improve their behaviour and take on more responsibility. The best-in-class principle is therefore an approach that aims to have a positive impact on companies in all sectors and thus on the economy as a whole.

- Sustainable thematic investments

Thematic investment strategies focus on specific economic activities (e.g. renewable energies) that are selected for their above-average long-term growth potential. Companies are only interesting for thematical investment strategies, if their products and services are linked to an explicit sustainable motivation. Sustainable thematic investing is often used in conjunction with other sustainability strategies such as exclusion criteria or engagement.

- Engagement

Engagement refers to a dialogue between investors and companies with the aim of convincing management to take social, ethical and ecological criteria into account and to bring about a change in awareness. One goal of engagement activities can also be the change of controversial business practices of a company. These include, among other things, the direct contact with companies, discussions with fund managers, other investors, industry associations, NGOs and political and business decision-makers.

- Impact investing

Impact investing refers to investments with the aim of achieving a positive social and ecological impact in addition to a financial return, which can be monitored and measured on an ongoing basis. Impact investments are often found in the areas of renewable energy and infrastructure, health and education.

- Divestment

Divestment refers to the sale of a security or investment product due to the violation of a sustainability-specific investment criterion or the withdrawal of investment capital due to a change in sustainability-related strategic objectives such as phasing out carbon-based energy sources.

Sustainability risks can have a negative impact on the value of assets and thus on fair-finance‘s return. By applying the strategies described above to include sustainability risks and the consideration of sustainability factors, lower sustainability risks are to be expected in the longer term and a positive effect on the return is to be expected compared to not taking them into account.

fair-finance bases its investment decisions on the Principles for Responsible Investment (PRI) in addition to its own sustainable investment management guidelines, which also take into account the 17 UN sustainability goals (so-called SDGs).

Furthermore, fair-finance Asset Management employees are represented in working groups on the topic of sustainability for constant exchange with other market participants.

Disclosure of adverse sustainability impacts of investment decisions on sustainability factors at entity level (in accordance with Article 4 of Regulation (EU) 2019/2088)

According to Regulation (EU) 2019/2088, “Transparency of adverse sustainability impacts at company level” means disclosure regarding the consideration of principal adverse impacts of investment decisions on sustainability factors. As "sustainability factors" the Regulation defines "environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters”.

Regarding the consideration of adverse effects of investment decisions on these sustainability factors, the regulation explicitly offers financial market participants and financial advisers the possibility to comply with the transparency obligation in the form of a negative statement. fair-finance Asset Management has decided to make use of this option referring to the principle of proportionality.

fair-finance Asset Management is aware that its investment activities and the associated investment decisions may have adverse impacts on sustainability factors.

In our function as asset manager, we have always considered ESG factors. Additionally, the company makes continuous efforts to obtain and evaluate the necessary data and to harmonize them in a meaningful way but is not (yet) capable of fulfilling the obligations within Annex I Table 1 of DelReg (EU) 2022/1288.

The data availability of sustainability-related data (ESG data) is still not given to the required extent and in the necessary quality, so that even an evaluation of any existing data would not provide a sufficiently consistent picture of adverse impacts. fair-finance Asset Management also does not currently have the necessary human resources to ensure the required collection, recording and presentation of data without disproportionate effort.

It goes without saying that fair-finance Asset Management is aware of the fact that its investment activities and the associated investment decisions may have a negative impact on sustainability. Against this background, the investment process as well as the related considerations with regard to sustainability factors and the related data collection are constantly being further developed so that in the future a comprehensive consideration of adverse effects of investment decisions on sustainability factors and the related disclosure should be possible.

This statement will be re-evaluated at least once a year and will be promptly adjusted in the event of a change in circumstances and consequent disclosure of the adverse impacts of investment decisions on sustainability factors as defined by EU legislation.

Disclosure of remuneration policy in accordance with Article 5 Regulation (EU) 2019/2088

A pronounced focus on the needs of our customers is at the heart of our responsibility. This is also reflected in the fact that social, ecological and responsible corporate governance criteria are firmly anchored in our business strategy.

In addition to the strategies described elsewhere for incorporating sustainability risks into the investment process, fair-finance's remuneration policy is also in line with the consideration of sustainability risks and does not include any incentive to take sustainability risks. As part of our compensation policy, we ensure that the performance of our employees is not rewarded or evaluated in a way that conflicts with our duty to act in the best interests of our customers.

In order to remain a reliable partner for our customers in the future, we are continuously developing our remuneration policy, also in line with regulatory requirements.

Measures for implementation and control

Knowledge of sustainability risks and factors is essential. The strategy described here was implemented in 2021 and will be regularly reviewed. The developments at European and national level regarding sustainability risks and factors and the associated requirements for the financial industry are monitored on an ongoing basis. Due to changes in the legal framework as well as improvements in the data situation and the available methods/tools, adjustments may to this strategy may be made if considered necessary.

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