SUSTAINABILITY-RELATED DISCLOSURE

(in accordance with Regulation [EU] 2019/2088 on sustainability-related disclosures in the financial services sector)

1. Introduction

On September 25, 2015, the UN General Assembly adopted the 2030 Agenda to serve as a global framework for sustainable development, with the Sustainable Development Goals at its core.
To achieve these goals and to mitigate the impact of climate change, the European Commission has published a comprehensive action plan for financing sustainable growth1 and the European Green Deal2.
Part of this action plan envisions reducing information asymmetries in dealings between customers and financial market participants or financial advisors regarding the integration of sustainability risks, the consideration of adverse sustainability impacts, the promotion of environmental or social characteristics, as well as with regard to sustainable investment.
These information asymmetries are to be eliminated through mandatory pre-contractual information and ongoing disclosures to end investors by financial market participants and financial advisors. Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (hereinafter "Disclosure Regulation") also requires financial market participants and financial advisors to publish written policies on the integration of sustainability risks.

The principle of sustainability, including diversity, is firmly anchored in Kathrein's corporate philosophy. Kathrein aims to play an active role in shaping a better future through the conscious selection of sustainable investments and has voluntarily committed to comply with all recommendations of the European SRI Transparency Code (mutual funds) for selected products that are managed by either Kathrein or its subsidiary, Kathrein Capital Management GmbH.
Sustainability through corporate social responsibility is an integral part of Kathrein's Strategy 2022. Kathrein maintains a diversity and inclusion policy as well as a sustainability guideline.

Furthermore, a sustainability project has been underway at Kathrein since 2021 to establish the effective consideration of sustainability risks into its business and risk strategies.

[1] https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en#action-plan
[2] https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

Investment decisions and investment advice may cause, contribute to, or be directly linked to effects on sustainability factors that are negative, material, or likely to be material.
The consideration of sustainability factors in the investment decision-making and advisory processes can yield benefits beyond the financial markets. It can increase the resilience of the real economy and the stability of the financial system. In so doing, it can ultimately have an impact on the risk-return of financial products.

According to the Disclosure Regulation, sustainability risk is defined as 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. In this context, sustainability risks can have a negative impact not only on the performance of individual assets and financial market participants, but also on financial stability. For instance, advancing climate change increasingly harbors risks for the economy and for society, and companies in which investments are made by means of financial products are likewise exposed to these risks.
The World Economic Forum's Global Risks Landscape 2020 ranks climate change, or the failure to mitigate and adapt to climate change, as the highest risk. Numerous other environmental risks are included among the top ten risks.

Alongside sustainability risks, sustainability factors can also be relevant to an investment or an investment decision. The Disclosure Regulation defines sustainability factors as environmental, social and employee matters, respect for human rights, and anti-corruption and anti-bribery matters. These include issues such as climate protection, protecting biodiversity, compliance with recognized labor law standards, appropriate remuneration, measures to prevent corruption, and the like.

2. Kathrein's approach to sustainability risks as a financial market participant and financial advisor

Because Kathrein offers portfolio management services, including the management of customer portfolios and investment funds (UCITS and AIF) as well as the provision of investment advice, Kathrein is deemed to be both a financial market participant as well as a financial advisor within their respective meanings in the Disclosure Regulation. The Disclosure Regulation stipulates certain disclosure requirements for both activities. In this section, we outline our approach to sustainability risks in this context.

Investment advice

When providing investment advice, we integrate the sustainability risks of financial products as defined by the Disclosure Regulation, such as investment funds or alternative investment funds or advice on discretionary portfolio management, in the following manner:
For financial products as defined by the Disclosure Regulation, sustainability risks are identified by the product provider (financial market participant).
Investment advice takes into account the information provided by the product provider. The information provided by the product providers regarding sustainability risks is made available to the investor and explained in greater detail during the consultation, and the expected impact of sustainability risks on the return of the financial product offered is also made clear.

Portfolio management

Identifying sustainability risks in portfolio management is a function of the type of financial instrument that is to be included in the portfolio. Information on the product provider's strategy for integrating sustainability risks is collected before incorporating financial instruments that constitute financial products as defined in the Disclosure Regulation into the portfolio.
With regard to other financial instruments (such as equities and bonds) that are to be included in the portfolio, a range of sustainability data is sourced from an external data provider in order to obtain assessments of the sustainability risks of these financial instruments.
Depending on the investment strategy selected for portfolio management, the extent of the sustainability risks may vary.

Information on data sources

When evaluating these aspects for internal analysis, Kathrein relies on the statements contained in the product documentation from the financial market participants who manage the product, as well as on data from external providers. The data used may potentially be incomplete, inaccurate, or temporarily unavailable. Furthermore, the providers of the sustainability ratings consider differing contributing factors and different weightings, which means that a single financial product may have differing sustainability scores.
Accordingly, there is some risk that the valuation assigned to a given financial product is incorrect. However, a plausibility check of the accuracy, quality, quantity, and granularity of this raw data and the suitability of the individual factors used in the sustainability ratings and in the assessment of the investment-related risk situation should minimize this risk. In the event of identified data gaps, efforts will be undertaken to close these gaps.

3. How sustainability risks impact the returns of financial products

The forward-looking assessment of the expected impact of sustainability risks on the return of a financial product involves the possibility that a financial product may generate a different performance pattern or a lower return in certain market phases compared with other financial products for which the asset selection is not subject to sustainability criteria and sustainability risks.
Overall, we consider the impact of sustainability risks to be lower for financial products that integrate environmental or social characteristics than for financial products that do not incorporate these criteria in the course of the investment process. Factoring in sustainability risks can have a positive impact on returns, at least over the longer term, as establishing a lower or zero portfolio weighting in securities from issuers with sustainability risks in the investment portfolio can potentially mitigate or completely eliminate disproportionately poor results due to the occurrence of a sustainability risk.

4. Considering adverse impacts on sustainability factors

Fund management

For the purposes of the EU Disclosure Regulation (EU) 2019/2088, Principle Adverse Impact (PAI) refers to the adverse impact of investment decisions on sustainability factors. For most of them, mandatory principal adverse impact indicators are already part of our approach to responsible investment.
Kathrein takes these adverse impacts on sustainability factors into account in its portfolio management by implementing a strict sustainability strategy consisting of a combination of exclusion criteria and positive criteria (best-in-class approach).
The investment process was adapted to identify and consider the adverse effects of investment decisions on sustainability factors as part of the sustainability strategy. The exclusion criteria and positive criteria methods are used here.
For the financial products that pursue a mandatory and sustainable investment approach, we take into account all mandatory and two voluntary adverse impacts on sustainability factors, which have been grouped together analogously. A distinction is made between investments in companies on the one hand and in states and supranational organizations on the other.

The groups of adverse impacts on sustainability factors and their coverage by the methodology applied are:
Corporates: Environment, social affairs, biodiversity, water, waste.
States: Environment, Social

Investment advice

Kathrein also takes into account in its investment advice the principal adverse impacts (PAIs) that may arise from investments in financial products, provided that relevant information is available for the product.
In the course of considering PAIs, the aim is to avoid or minimize these negative impacts.
The aim is to reduce or prevent harmful impacts with the aim of reducing greenhouse gas emissions, protecting biodiversity and water and reducing the amount of hazardous waste. Social and labour concerns include compliance with internationally recognized labour standards as well as equal pay for women and men (gender pay gap).
This is taken into account through the increased inclusion of products that take PAI into account in the range of products and in advisory services.
Likewise, in the course of obtaining information on preferred investments in sustainable financial products, clients are asked whether and which PAIs they would like to have taken into account when advising clients or in the course of asset management. The compliance of the corresponding client preferences with the client´s portfolio composition is communicated to the clients in the suitability report.

5. Remuneration policy and sustainability risks

Kathrein ensures that its remuneration policy takes sustainability risks into account to an appropriate extent. Accordingly, the remuneration guidelines give due consideration to ensuring that investment advice and portfolio management encourage sound and effective risk management with respect to sustainability risks, while the remuneration structure does not encourage excessive risk-taking with respect to sustainability risks and is linked to risk-adjusted performance.

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