

Sustainability Policy within the Scope of the Investment Strategy of Früh & Partners Asset Management Ltd.

1. Introduction:

The Sustainability Policy of Früh & Partners Asset Management Ltd. describes how sustainability aspects are taken into consideration and integrated within the analysis and selection process of our investments and ultimately, within the scope of asset management and investment consulting.

2. Guiding principle:

The investment philosophy of Früh & Partners Asset Management Ltd. pursues a long-range investment horizon. In the course of analysis and selection of our companies, it is therefore our intention to invest in stable and yet viable companies. As asset managers, we strive to responsibly handle the capital entrusted to us.

Within the context of our services, we do not offer an express “ESG strategy” or “sustainability strategy” and intentionally do not advertise our investment strategy as such. The backdrop of this is the fact that we have frequently observed a certain “marketing ambition” in this respect from which we wish to distance ourselves. Furthermore, it is our view that an investment strategy with a pure or rigid focus on certain “trend topics” results in significant limitations and valuation-related risks in the selection of potential investments.

We wish to always remain open to the entire investment universe and consistently gain our own impression of a company. As long-term investors, we attempt to predict the market environment of individual companies in a few years. The longer the investment horizon, the more important are the qualitative factors, among which we also make allowances for aspects associated with the environment (E), social (S) and governance (G) factors and their derived sustainability risks. In so doing, our decisions are always made on a case-by-case basis, are future-oriented, and without rigidly defined exclusion criteria. We nevertheless maintain a distance to companies that manufacture land mines, cluster munitions and nuclear weapons.

3. Our understanding:

Our understanding of sustainability describes an orientation of a company for the good of all of its interest groups (employees, customers, owners, suppliers/partners, government/society and the environment) in order to succeed in the long term. A company is only successful if it has employees who are content, it provides satisfactory service to its customers, it maintains fair dealing with business partners, possesses strong and committed investors, pays its taxes and charges in order to act within a stable legal and social order, and takes care of the environment. As long-term investors, the company's business environment in 5 – 10 years plays a decisive role for our investment proposition. At the same time, with the increasing focus on sustainability, we see changes coming to certain market niches not only from the regulatory side. Societal awareness and impacts on consumption are also taken into consideration in our decision-making.

Companies that promise positive effects on the environment do not, in our opinion, guarantee a profitable investment (e.g., German companies in the solar and wind energy sectors in the past), since additional factors do in fact play an essential role. We are convinced that a company can only give something positive back to society and the environment if it is profitably managed and can invest funds in research and development or in the future.

As an example: some companies work in industries that are indispensable in our everyday life and, in some ways, cannot be replaced, however, which are potentially classified under current guidelines as not sustainable. In some cases, it is precisely those companies that, due to their responsibilities and activities, are in a position to effectuate changes and in so doing, bring about great positive effects for a society, when managed with a future-oriented focus. Through research, development and the integration of new products and processes in the value chains, certain companies are in the position as forerunners to lay the building blocks for a sustainable future.

4. Our approach:

In the public realm it is suggested that it is easily possible to classify companies as "sustainable" and "non-sustainable". However, we are of the view that one cannot generally categorize companies into "good" and "bad" or "black" and "white", since the aggregate picture must be preceded by an individual and intensive analysis process. That is why in our approach we do not rely on external ESG ratings, since we are unpersuaded by their partly opaque evaluation processes, using standard questionnaires. In our opinion, no generalized, reasonable evaluation (or one that satisfies our criteria) can be done with such ratings to ensure which investments, as the legislature defines it, can be classified as "avoiding detrimental impacts on sustainability factors" or as "sustainable" and "taxonomy-conforming". For this reason, we do not take any limiting, additional sustainability criteria into account from the legislative wording, and view our investment strategy to be sustainability-neutral.

There is certainly nothing wrong with reading ESG analyses or considering various ratings; however, in our view, this may not replace one’s own analysis process. ESG analysts largely come to a decision without ever having contacted the company or understanding it in detail. By contrast, our approach is to analyze the company down to the finest detail and to develop an in-depth understanding for the respective company. In our time-intensive and detailed, fundamental analysis process, we focus on both a company's quantitative and also qualitative factors. This also includes, for example, besides analyses of the company's figures, discussions with management or representatives of the investor relations department, as well as discussions with former employees, competitors, etc., in order to obtain as broad a picture as possible and to understand the company down to the smallest details.



Image 1: Our diagram of the company analysis process

Within the scope of our multi-level analysis, we are particularly vigilant about good corporate management, since we are convinced that this is essential for the company's successful and sustainable development. Good corporate management unifies the interests of all stakeholders. Ideally, managers should not only have a high degree of professional competence,

but also a high degree of integrity and should think and act as an owner. We likewise look to invest in companies that are either founder-managed or have a large anchor shareholder (15% – 25% share) in order to positively influence the long-range and sustainable orientation of corporate management and strategy.

5. Conclusion

Through our in-house research it is ensured that a company will only be included in our portfolio if it satisfies our internal, strict quality criteria. In this connection, we do not rely on the research of third parties.

In our analysis process, we take into consideration, besides many other elements, also sustainability risks and factors from the areas of the environment (E), social (S) or governance (G) and assess these with regard to opportunities and risks. However, these do not represent the main criterion for an investment in a certain company. Overall, all of our criteria are consistently viewed from the perspective of a long-term investor so that long-term value creation can be ensured.

It is only after our intensive analysis process is concluded that we decide whether to invest in a company. During the time in which a company is in our portfolio, we continue to consistently monitor it and constantly pay attention to follow-through on our criteria and our long-term investment proposition.

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Additional notices and information:

This Sustainability Policy is subject to routine review and is updated as necessary depending on the development of business activities and adaptation of the strategies for implementing sustainability criteria and risks. The current version of the Sustainability Policy is published on the website of Früh & Partners Asset Management Ltd. (www.fpartner.li).

Früh & Partners Asset Management Ltd. complies with its sustainability-related duties of disclosure according to the Disclosure Regulation (EU) 2019/2088 (SFDR). The disclosures according to SFDR are published on the website (www.fpartner.li).