Active Ownership
Principles

ocean of opportunities

bonafide

Active Ownership Principles
Bonafide Wealth Management AG

Definition
The term active ownership describes using ownership rights to influence invested companies. It includes the two sub-areas engagement and exercise of voting rights.

Objectives
The fundamental objective of active participation is to drive long-term value creation in the companies invested in by helping them to adjust to potential risks at an early stage and to identify and seize attractive opportunities. At the same time, the intensive cooperation as part of the active participation between Bonafide and the invested companies also offers the opportunity to create more mutual transparency and thus a better understanding of respective positions, a more effective exchange of information, and improved accountability.

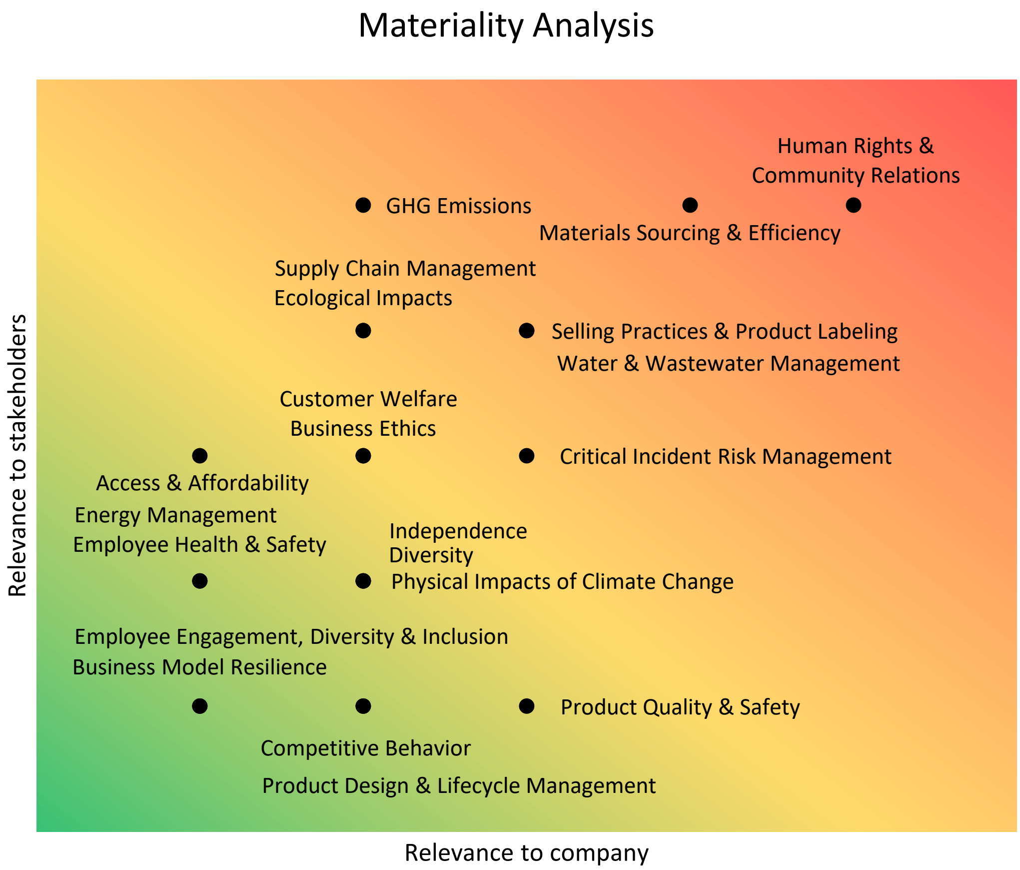
Process

Scope	Companies on watchlist		
	Pimary		Secondary
Due Diligence	Yes		No
	Material factors	Immaterial	Unknown
Engagement	Yes	No	No
Voting	Directly	Directly	1% threshold
Disclosure	Annually on fund and portfolio level		

Areas of application
Although it would be desirable to get to know as many companies in the investment universe as possible through the process of active participation, for capacity reasons it is only possible to take a closer look at selected companies from the watch list. The selection is made based on nine criteria, which primarily serve to answer the following questions:

- What added value can Bonafide achieve through a possible engagement?
- Which companies can primarily benefit from an engagement?
- Which companies are likely to be open to an engagement?

Due diligence process
Selected companies are examined annually for issues that are expected to make a significant contribution to their return or sustainability. For this purpose, materiality analyses based on the categorisation of the **Sustainability Accounting Standards Board** are used to assess factors identified in advance at industry group level in the context of the company and, if necessary, additional factors are added. An exemplary materiality analysis for the aquaculture sector is shown in the following diagram.



Annual reports, CSR reports, broker reports, reports from international organisations, ESG ratings and the current news situation are primarily used to uncover and analyse the relevant issues.

Engagement

The term "engagement" basically describes the in-depth dialogue with invested companies. Nowadays, the term is mainly used in connection with ESG, but broader topics such as corporate strategy, investment plans and competitiveness can also be discussed and addressed in the context of an engagement. Bonafide's focus is based on materiality analyses at industry level, which means that the focus is primarily on factors that are highly relevant from both a sustainability and a financial perspective. In general, the following objectives are at the forefront as part of an engagement:

- Getting to know the corporate culture and strategy
- Assessing the company's competitiveness
- Assessing the quality of corporate governance
- Creating more transparency on the subject of sustainability
- Improving the sustainability performance in production
- Information exchange on industry trends, legislative measures, innovations
- Networking and contact brokering

The course of an engagement is generally based on the following structure:

Following extensive preparation regarding the individual circumstances in the respective companies, the first step is to define, quantify and schedule the goals and milestones to be achieved as part of the engagement on the basis of the materiality analysis. Milestones include, for instance, the receipt of detailed information, an on-site visit to the facilities or an initial meeting with knowledgeable people from the company. Subsequently, Bonafide usually contacts Investor Relations in writing to obtain additional information and contacts for the further process. As part of the engagement, the intended aim is to enter into dialogue, at least by phone, with employees from the respective specialist departments, management or the Board of Directors and, if feasible, to get to know the people and circumstances on site in person. Bonafide then uses the insights gained to derive instructions for action, such as adjusting the internal ESG rating, adjusting the portfolio weightings or a targeted exercise of voting rights. By exchanging feedback questionnaires/meetings, Bonafide also tries to further improve the process for future engagements. Finally, from 2020 onwards, the results and undertakings achieved will be communicated to Bonafide investors as part of an annual active ownership report at portfolio and company level.

Exercising voting rights

In principle, Bonafide exercises voting rights for all those companies in which Bonafide holds more than 1% of the capital eligible to vote. Voting behaviour is based on the guidelines listed below, whereby the specific circumstances of the companies and the exact state of affairs are always decisive in individual cases. The disclosure of voting behaviour at portfolio and company level is also made as part of the annual Active Ownership Report available from 2020.

Annual report and audit

We consider it a matter of course that the annual accounts give a true and fair view of the company's financial position, financial performance and cash flow. A prerequisite for this is the independence and impartiality of the auditor and the auditing company, also with regard to remuneration.
Annual report:

- Reasons for a critical view
    - Errors in disclosing the annual report in a timely fashion
    - Doubts about the accuracy of the annual report
    - Errors in disclosing important information on sustainability issues

Final audit:

- Reasons for a critical view
    - Length of service, remuneration or independence of the auditors do not comply with the standard

Board of Directors

We support the approach that responsible management and oversight of a company, geared to long-term value creation, is in the interest of its shareholders. The composition, activities and remuneration of its executive bodies should reflect this.
Discharge of the Board of Directors:

- Reasons for a critical view
    - Measures to identify and prevent conflicts of interest are not appropriate
    - Non-compliance with legal or internal company guidelines
    - Significant violations of generally accepted SRI or ESG guidelines, including the failure to appoint a responsible executive member
    - Pending or anticipated litigation against members of the Board of Directors

Appointment of members of the Board of Directors:

- Reasons for a critical view
    - Overlap of the roles of the CEO and the Chairman of the Board
    - Provision of insufficient personal information
    - Unsatisfactory gender distribution on the Board
    - Lack of independence of the Board of Directors
    - Doubts about the suitability of the candidate due to frequent absences, holding a large number of supervisory board positions or a criminal background

Executive remuneration

The compensation system should be in line with the long-term corporate strategy and be appropriate. Any votes on the subject of "Say on Pay" should be observed as far as possible.

- Reasons for a critical view
    - Available information is not sufficient to assess the various components of the remuneration system
    - Missing, excessively short-term oriented or excessive incentive structures
    - Subsequent adjustment of performance criteria
    - Failure to respond to the refusal to approve the remuneration system by at least 25% of the shareholders present at the previous year's Annual General Meeting

Capital structure

Capital measures should be in line with the long-term corporate strategy and be appropriate.

- Reasons for a critical view

- Disbursement of preference shares
- Capital increase with subscription rights of over 30% of the share capital
- Capital increase without subscription rights of over 10% of the share capital
- Buyback of shares of a company in financial difficulties
- Disbursement of a dividend that is inappropriate or detrimental to the substance of the company when compared to the sector

Mergers and acquisitions

Mergers and acquisitions are in the interest of shareholders if they are in line with the long-term corporate strategy. In order to make an assessment, it is necessary that shareholders are adequately informed.

- Reasons for a critical view
  - The information available is insufficient
  - The transaction is not in the best interests of the shareholders
  - The purchase price offered does not correspond to the long-term value of the company and there is no sophisticated corporate governance
  - Measures pursued serve to hinder takeovers that are in the long-term interests of shareholders
  - in the case of transactions which exceed 30 percent of the respective stock market value of the acquiring company, the approval of the shareholders by a general meeting is not obtained

Shareholders' rights and motions

Our basic understanding of good corporate governance includes protecting the rights of shareholders while respecting the principle of equal treatment. Special rights as well as measures that worsen shareholders' rights are not in shareholders' interest. Shareholder motions should be supported if they are compatible with shareholders' long-term interests.

- Reasons for a critical view
  - Measures that contravene the principle "One share – one vote"
  - Amendments to the Articles of Association that restrict shareholders' rights

Sustainability

Responsible corporate governance in compliance with nationally and internationally recognised sustainability standards is in shareholders' interest. Shareholder motions that involve the disclosure of additional information on key sustainability issues or their improvement should be supported. The diversity policy and strategy to reduce the effects of climate change must be released.