BaltCF investment guideline

valid as of 27th March 2025

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Purpose of BaltCF's asset management

The core purpose of the foundation's asset management is the generation of regular earnings for the realization of the foundation's purpose, while at the same time maintaining the permanent capital of the foundation – if possible, in real terms.

Investments must not be contrary to the foundation's purpose, and according to the statute, they shall not only follow ecological, but also social criteria. As far as possible, the foundation's asset management should also serve the realization of the foundation's purposes, e.g. by participation in companies whose purposes are partially or fully congruent with those of the foundation.

Ecological and social investment criteria

Ecological and social exclusion criteria

Investments in branches and companies whose activities represent – directly or indirectly, e.g. by affecting tributaries or coastal habitats – a danger to the marine environment, and especially to the ecological stability of the Baltic Sea, are contrary to the foundation's purpose and thus not admissible. Beyond this, certain environmentally damaging branches and companies shall be excluded as well.

Therefore, this guideline excludes direct investments (participations, shares, bonds and similar) into companies which

- produce biocides or organochlorine mass products;
- produce or use chemicals for intensive agriculture;
- conduct mass animal rearing, including up- and downstream processes like livestock breeding or slaughtering, or produce/distribute equipment for these purposes;
- conduct underwater mining or destroy coastal ecosystems for raw material extraction;
- conduct commercial fishery or produce/distribute equipment for this purpose;
- produce genetically modified animals or plants or use them for production;
- produce energy from fossil fuels or nuclear fission commercially;
- produce components for the use of nuclear fission or fossil fuels or trade with those, if those activities account for more than 5% of the company's revenue.

According to §4 section 4 of the foundation's statute of 26th July 2023, investments also must not violate ethical standards. This investment guideline defines the concrete ethical standards in question. Thus, direct investments into companies are not admissible if these companies

- produce arms or trade with them, if this accounts for more than 5% of the company's revenue;
- use or tolerate child or forced labour;
- significantly violate the principles of the ILO core conventions;
- significantly discriminate employees or contractors based on gender, social or ethnical background, sexual identity or orientation or because of a disability;
- conduct corruption or money laundering;
- conduct avoidable animal testing or have it conducted.

In exceptional cases, deviations from these exclusion criteria are admissible, as long as the purpose of the exclusion is not violated. This can be the case in dual use scenarios, if goods are not intended for a use that runs contrary to this guideline, or if avoidable animal testing does not cause any noteworthy harm to the animals used. In such cases, the decision has to justified individually.

In the case of direct investments like shares or bonds, the individual company needs to be checked. This is not possible in the case of investment into funds with a broad range of investments. In this case, the check can be limited to external fund reviews, an opinion by the financial advisor and, in case of doubt, an analysis of the most important holdings of the fund.

The aforementioned exclusions are valid also for structured investment products (e.g. reverse convertible bonds), which are not direct investments, but whose success depends on the stock price of a specific company.

Preference for investments with positive ecological effects

With consideration of the economical aspects, especially the risk and the expected return, investments into such companies should be preferred, whenever possible, whose business model provides a benefit for the protection of the environment, especially for the ecological stability of the Baltic Sea. Those can be

- companies that drive forward the change towards renewable energies;
- companies that, by engaging in the areas of circular economy or recycling, contribute to the reduction of raw material extraction, resource consumption and the production of new physical goods;
- companies that directly contribute to the reduction of negative environmental effects, e.g. by replacing products that are harmful for bodies of water with harmless alternatives, or by directly removing contaminants;
- companies that drive forward the change towards an ecological agriculture and forestry.

Investments into Green Bonds by „conventional“ companies are also possible, as long as the company does not fall under the ecological or ethical exclusion criteria.

Investment into public investment products

The term „public investment product“ means investment products – usually, but not exclusively, fixed-interest bonds – that are issued by national states, subnational entities like federal states, regions or municipalities, public institutions (e.g., central banks), as well as inter- and supranational organisations and institutions.

Investments into public investment products are made if the issuing body shows high standards regarding the respect for human rights, social justice and environmental protection. For this selection, available and established ratings about human rights policy and environmental policy shall be used. Indicators for a positive investment decision can be:

- rating „free“ in the Freedom in the World report by Freedom House;
- rating „good“ or „satisfactory“ in the Press Freedom Index by Reporters Without Borders;
- 50 or more points in the Corruption Perception Index (CPI) by Transparency International;
- rank 40 or better in the Environmental Performance Index (EPI) by Yale University.

The aforementioned thresholds shall not be understood as strict selection criteria, but as indications. Due to the lack of widely available, methodologically rigorous sustainability ratings for public bodies, investment decisions in this area need to be justified individually. Rankings and information other than the aforementioned can thus also be used, if this makes sense in the individual case.

Investments into public investment products are excluded if the body in question (if applicable)

- has legislation that intends the death penalty, unless it has been neither imposed nor executed in the 25 years before the date of the investment;
- is "not free" according to the Freedom in the World report;
- significantly suffers from corruption (CPI score of less than 30);
- has not ratified one or more of the following international treaties:
    - the UN Convention on the Law of the Sea
    - the UN Convention on Biological Diversity
    - the London Convention on the Prevention of Marine Pollution by Dumping of Wastes and Other Matter, including the 1996 Protocol
    - the MARPOL convention
    - the Paris Climate Accords
    - the Treaty on the Non-Proliferation of Nuclear Weapons
    - the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Desctruction
    - the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction

However, an investment is admissible, if the body in question has ratified, instead of one or more of the aforementioned international treaties, other treaties with comparable goals, and/or the goals of the respective treaties are achieved sufficiently through other legislation valid for the body. Also, an investment is admissible if the goals of the respective treaty do not apply to the body in question.

Financial investment criteria

Within the framework of the ecological and ethical investment criteria, investments generally shall be made in such a way that they generate the highest possible earnings for the realization of the foundation's purpose at a reasonable risk. It has to be ensured that the foundation's earnings cover the statutory activities and the necessary administrative costs. This means that generally investments yielding regular returns are to be preferred over investments that primarily aim at an increase in value.

Credit risks

Bank deposits are made exclusively at banks situated in countries bordering to the Baltic Sea which are subject to the EU deposit guarantee system or a comparable system.

The credit rating for issuers of bonds and other investment products needs to be "investment grade". This is the case if the rating agencies Moody's, Standard & Poor and Fitch unanimously rate an issuer accordingly, meaning the issuer is rated Baa3/BBB- or higher. If the ratings differ, the average rating is relevant. For issuers at the lower end of the spectrum (Baa3/BBB-), the outlook must not be „negative" in the current ratings.

If an issuer is not rated by the big rating agencies, an investment can be made after consultation with the financial advisor and appropriate checks, i.e. if a credit rating by another competent rating company can be obtained or an analysis of the issuer's business model and financial situation lets an investment seem reasonable.

If the credit rating of the issuer of a product already in possession of the foundation falls below the defined thresholds, a decision about this investment needs to be taken and justified.

The foundation is generally interested in supporting sustainable investment projects (e.g. via specialized crowdfunding platforms) like renewable energy projects, sustainable startups etc., which have a concrete environmental benefit and/or contribute to the development of a more sustainable economy. Since the possibilities for a proper risk assessment are often limited, but the risk is usually rather high, any single investment must be limited to €25,000, and the sum total of such investments must not exceed 5% of the foundation's other assets (without the permanent capital). In the case of German companies whose financial situation can be more easily checked, and against which claims can be enforced more easily in the cause of bankruptcy or fraud, a single investment can be up to €100,000, as long as the upper limit for the total investments in this category is not exceeded.

These limitations are not valid for projects by companies whose creditworthiness has been assessed and documented by a competent agency to be within the framework of this investment guideline.

In exceptional cases, high-yield bonds can be purchased, meaning bonds with a credit rating below „investment grade". Any such investment must be justified separately. The purchase must not be pure speculative, but has to provide an additional benefit, and the risk needs to be balanced by a respective return. Such investments also need to be limited to 5% of the foundation's other assets (without the permanent capital). No single such investment may exceed €100,000.

Product risks

The purchase of an investment product must not cause the violation of the following thresholds for the division of the foundation's total assets:

Product groups	Share of total assets
Product group A: bank deposits, fixed-interest securities, real estate, direct loans, fixed-interest funds, mixed funds with an equity quota of less than 35%	50-100%
Product group B: structured financial products (reverse convertible bonds and certificates with capital protection), shares, direct stakes, mezzanine capital, equity funds and mixed funds with an equity quota of 35% or more	0-50%
Product group C: leveraged products, hedge funds, commodities, high-yield bonds and investments into sustainable projects with a high risk	0-10%

Reverse convertible bonds and certificates with a capital protection barrier of 70% or less are equally allocated to product groups A and B. If the barrier is above 70%, they are allocated to product group B.

The foundation may invest in leveraged products or hedge funds only to secure itself against changes in value of other investments, as long as such an investment does not violate this guideline.

If the aforementioned thresholds are exceeded, a decision about possible reallocation has to be taken and justified.

Currency risks

Investments in all product groups can also be made in foreign currencies. The quota of foreign currency investments at the time of any such investment decision must not exceed 25%. In the case that this threshold is exceeded due to changes in exchange rates or other changes in value, a decision about possible reallocation has to be taken and justified.

It needs to be observed that in the case of investment funds, not the currency in which the fund is noted, but the currencies of the investments held by the fund are relevant.

Concentration risks

The total investment in one debtor must not exceed 10% of the foundation's total assets at the time of the purchase of an investment product. This applies to all product groups. In the case of a bank, for example, bank deposits fall under this quota, as do bonds issued by the bank and equity capital of the bank held by the foundation. In the case of an increase in value of investments held, the total investment in one debtor must not exceed 15% of the foundation's total assets.

Investments which are additionally secured in such a way that the risk of the issuer's defaulting is negligible (e.g. COSI in the case of securities issued in Switzerland) are not included in this quota.

An external asset manager may manage at most 50% of the foundation's total capital. This threshold does not apply to assets managed by the foundation with the help of a financial advisor.

External advisory and management

In order to execute this investment guideline, the foundation may contract with external advisory. Those need to be BaFin-approved.

The foundation's assets can be transferred in part or in whole to one or more asset managers. Those need to be approved by BaFin or the financial supervision of the respective EU member state.

In the case of a transfer of assets to an external asset manager, this investment guideline has to be agreed upon as a part of the contract.

The costs of asset management need to be made transparent and have to be reasonable compared to the earnings.

Revision

This investment guideline is to be revised regularly, at least every five years.

Entering into force

This investment guideline enters into force directly after it has been approved by the board.