GIGA
German Institute of Global and Area Studies
Leibniz-Institut für Globale und Regionale Studien

Guidelines for the Investment of GIGA's Foundation Assets

(as resolved by the Board of Trustees on 7 December 2016)

The Board of Trustees of the GIGA German Institute of Global and Area Studies resolves the following investment guidelines:

§ 1
Scope

These investment guidelines apply to the administration of the means of the foundation assets of GIGA German Institute of Global and Area Studies/Leibniz Institute of Global and Regional Studies pursuant to § 3 (2) of the foundation's Charter dated 1 January 2007.

§ 2
Investment principles

(1) Investment is made into investment funds which are deemed suitable for foundations and meet the following minimum requirements.

(2) The investment of the assets is guided by a long-term investment strategy with the aims of security, real preservation, ethical responsibility and return on the foundation assets.

(3) Preserving the actual stock of the foundation assets and, if possible, generating distributable returns, which are conducive to fulfilling the foundation's objectives as stipulated in the Charter, are the defining objectives for investing assets.

(4) The means of the foundation assets are to be invested in consideration of the adequate spread of approved asset classes pursuant to § 3 and the corresponding diversification of risk pursuant to § 4.

(5) New investments or reinvestments are conducted – with consideration of transaction costs – promptly after received payments or after maturity dates.

(6) A more specific determination of the investment strategy in compliance with ethical principles shall occur pursuant to Annex 1 "Guidelines for Sustainable Capital Investment".

§ 3
Investment instruments

Permissible investment instruments within the to-be-acquired investment funds are bonds, shares and equity products, alternative investments (including microfinance investments) as well as current accounts, and overnight and term deposits.

§ 4
Currencies and maximum limits

(1) The maximum amount of assets invested in non-euro currencies must not exceed 25 %.

(2) The maximum amount of shares, equity products and alternative investments must not exceed a total maximum of 30 %, of which the share of alternative investments must not exceed a maximum share of 10 % of the entire portfolio.

§ 5

Documentation and supervision of compliance with investment guidelines

(1) Investment decisions are to be documented accurately.

(2) Compliance with the investment guidelines in this version is supervised by the Executive Board or a person or body appointed by the Executive Board. Reports on compliance with the investment limits are to be made to the Executive Board on a quarterly basis and to the Board of Trustees on an annual basis or, if necessary, as warranted by circumstances. If violations of the investment limits are discovered, measures are to be taken which will, within ten working days, restore the investments to a level within the investment limits. Confirmation that the investment is in compliance with these investment guidelines is to be provided to the Board of Trustees by a report of a chartered auditor.

§ 6

Entry into force and review

(1) These investment guidelines enter into force on 1 January 2017.

(2) The following regulations are applicable to the process of adapting the current investments of the foundation assets to these investment guidelines:

a) Assets not invested in securities must be invested pursuant to these investment guidelines as of 1 January 2017.

b) Assets that become available due to maturities or premature termination must also be invested pursuant to these investment guidelines as of 1 January 2017.

c) Securities without maturity date and securities which reach maturity after 31 December 2021 are to be terminated before this deadline; the assets which are thus available are to be invested pursuant to these investment guidelines.

(3) In periods of no more than two years, these investment guidelines are to be reviewed by the Council for Financial Affairs and, if necessary, modified by the Board of Trustees.

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Annex 1 of the Guidelines for the Investment of GIGA's Foundation Assets

Guidelines for Sustainable Capital Investment

Preamble

These guidelines for sustainable capital investment supplement the "Guidelines for the GIGA's Foundation Assets". They aim to ensure that only such asset investments are considered that are in accordance with the foundation's objectives.

The selected products are to fulfil recognised social, ecological and ethical criteria ("standards"). The minimum requirement for single values is their listing in the relevant national and international sustainability indices, or their positive evaluation by the relevant national or international rating agencies; with regard to funds, the single values included therein must either be listed in the relevant national and international sustainability indices, or must be rated positively by national or international rating agencies, or must regularly receive a verifiable and positive evaluation by the funds management, which is based on a transparent classification scheme.

The foundation stipulates the following targets and sustainability criteria for the sustainable investment of foundation capital:

§ 1 Targets of sustainable capital investment

The sustainable investment of capital is based on the normative standard that, pursuant to § 2 (1) of the foundation's Charter, GIGA dedicates its scientific work to the research of social, economic and political conditions and developments in Africa, Asia, Latin America, and the Middle East. This entails a responsibility on the part of the foundation to implement capital management which is transparent and is credibly governed by normative standards. The guidelines for sustainable capital investment pursue the target to optimise the generation of revenue and the real preservation of the foundation capital by using sustainable forms of capital investment.

§ 2 Sustainability status of capital investment

The foundation's investment portfolio has achieved sustainability status when

- all investment products fulfil the catalogue of sustainability criteria (§ 3) stipulated in these guidelines by the deadline on 1 January 2022 (new investments must comply with the sustainability criteria by 1 January 2017) and
- all equity products and corporate bonds are either listed in the relevant sustainability indices (e.g. Dow Jones Sustainability, FTSE4Good etc.), or have received a positive rating from the relevant rating agencies (e.g. Oekom Research, IMUG, Sustainalytics etc.), or, with regard to funds, regularly receive a verifiable and positive evaluation by the funds management, which is based on a transparent classification scheme that corresponds with those used by sustainability indices and rating agencies, by the stipulated deadlines. The sustainability indices, rating agencies, and the funds management are guided by national and international agreements such as the Global Challenges Index, the Principles for Investors in Inclusive Finance (UNEP, Global Compact), and the German Nachhaltigkeitskodex.

§ 3 Standards for the evaluation of capital investments

The capital investment is based on *evaluation standards* in the form of a combination of two *evaluation approaches*:

- *Best-in-class approach:* This approach identifies issuers which fulfil sustainability standards (e.g. *Corporate Governance,* personnel management, environmental management) at an above-average level.
- Exclusion criteria: This instrument identifies business areas from which the foundation, due to its normative standards, does not want to yield revenue and excludes issuers who, due to their business practices, breach international conventions and legal standards.

For the *best-in-class approach* and for the fulfilment of the *exclusion criteria* specified in the following, the foundation relies on existing financial products, or on the analyses of specialised indices and rating agencies, or the funds managers.

The exclusion criteria extend to business areas and business practices, differentiating between categorical and relative exclusion criteria.

a) *Business areas with classic exclusion criteria*

The foundation applies "classic" ethical exclusion criteria and largely refrains from revenue emanating from business areas whose products have a high potential to cause addiction or to damage health (alcohol, tobacco, gambling), or display a denigrating or degrading depiction of individuals or of sexual acts (pornography). The following individual exclusion criteria have been defined:

Alcohol

Producers of beverages and foodstuff containing alcohol (only products with a high percentage of alcohol, not beer or wine)

- at 10 % revenue or more for high-percentage alcohol (beverages, foodstuff).

Tobacco

Producers of any type of tobacco products (end product and ingredients/paraphernalia).

- at 10 % revenue or more.

Gambling

Providers of gambling activities that have a high addictive potential, in particular controversial forms of gambling

- at 10 % revenue or more.

Pornography

Denigrating or degrading depiction of individuals or of sexual acts. Production and distribution of such products and services

- at 10 % revenue or more.

b) *Business areas with further normative exclusion criteria*

Arms industry

Weapon(s) (systems), e.g. long guns, tanks, combat jets and any other armaments (e.g. radar systems, military transport vehicles, control software), which have specifically been developed for military application. *Dual-Use*-products are exempt.

- The production and distribution of internationally prohibited weapons constitutes a categorical exclusion criterion (0 % turnover);
- The permissible share for weapon systems must not exceed 5 % of the overall revenue;
- The permissible share for any other armaments is limited to 10 % of the revenue.

Nuclear energy

The production and distribution of nuclear energy, mining of uranium and the construction of core components of nuclear power plants. *Dual-Use*-products are exempt.

- The share of revenue must not exceed 5 %.

c) *Exclusion criteria for business practices*

The following exclusion criteria are applied to business practices:

Human rights violations by companies and suppliers

The large-scale violation of internationally recognised principles such as the *UN Universal Declaration of Human Rights,* if they do not expressly refer to state obligations and are not already covered by the *ILO Declaration on Fundamental Principals and Rights at Work* (human trafficking, major use of physical violence against third parties or ordering/supporting its use, violation of self-determination rights of third parties) is deemed an infringement.

- Re-investment is precluded in the event of acute violations (last three years).
- Investment products included in the portfolio are to be sold within a six-month period in the event of violations or insufficient *Corporate Governance*.

Controversial business practices of companies and suppliers

Cases of severe disregard of statutory provisions or generally recognised rules of conduct (corruption or fraudulent accounting) are deemed violations.

- Re-investment is precluded in the event of acute violations without verifiable *Corporate Governance* aimed at uncovering and countering misconduct.
- Investment products in the portfolio are sold when companies fail to implement decisive counter measures or to guarantee conformity with rules *(compliance)* within a year.

Controversial environmental performance of companies and suppliers

Cases of severe disregard of statutory provisions for the protection of the environment or generally recognised minimum ecological standards/rules of conduct are deemed violations.

- Re-investment is precluded in the event of acute violations without verifiable *Corporate Governance* aimed at uncovering and countering misconduct.
- Investment products in the portfolio are sold when companies fail to implement decisive counter measures or to guarantee conformity with rules *(compliance)* within a year.

Violations of labour law pursuant to ILO-standards by companies and suppliers

Violations include breaches of ILO-standards (freedom of assembly and expression, forced labour, child labour, discrimination) as well as the breach of minimum standards (security, health, payment, working time).

- Re-investment is precluded in the event of acute violations without verifiable *Corporate Governance* aimed at uncovering and countering misconduct.
- Investment products in the portfolio are sold when companies fail to implement decisive counter measures or to guarantee conformity with rules *(compliance)* within a year.

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