



## ESG – RESPONSIBLE INVESTMENT

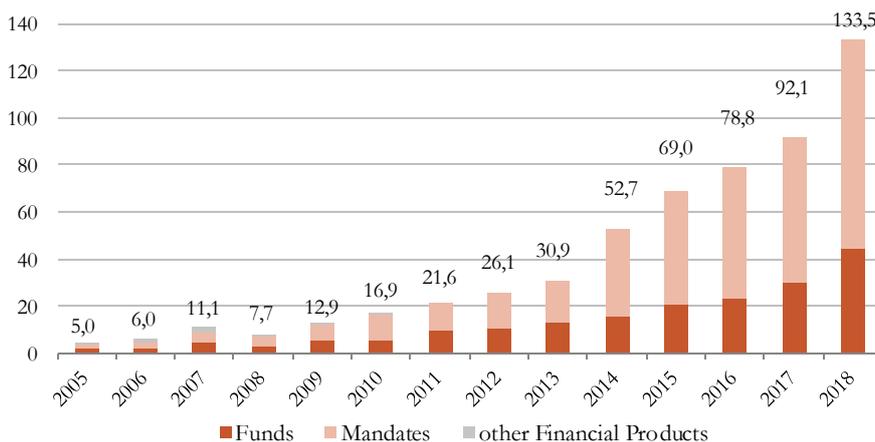
Introduction to ESG Investing

### What is ESG?

ESG investment strategies take into account Environmental (E), Social (S) and Governance (G) issues on top of traditional fundamental issues such as micro and macroeconomic information.

“ESG investing”, in essence, is a term that is used synonymously with “ethical screening”, “sustainable and responsible investing” and even with “impact investing”.

### Sustainable Investment Funds and Mandates in Germany (in Billion €)



This quarterly *ESG Update* gives you an overview of current ESG topics as well as highlights important developments in the field of Responsible Investment.

*The importance of sustainable investing is significantly rising. Sustainably invested assets under management globally amounted to **US\$ 30,7 Tr.** in 2018, which marks an increase of **34%** compared to 2016.*

### Our general Understanding of ESG

We understand the value of integrating ESG factors into our investment decisions in order to better analyse risk and return. We incorporate ESG by analysing ESG risks and opportunities using our own research and via third party providers. We have a broad range of methods when it comes to ESG investing. This includes negative/exclusionary screening, supporting companies with sustainable growth drivers/impact investing, positive/best-in-class screenings and even ESG-integration techniques within fundamental assessments.



## Berenberg ESG Exclusion Criteria

At Berenberg WAM, we avoid certain types of products, sectors and states as part of our ESG exclusions which is generally applied throughout all our dedicated ESG funds/portfolios (unless specified otherwise by the clients for discretionary mandates).

### Exclusion Criteria for Equities and Corporate Bonds in our Dedicated ESG Funds

| Parameter   | Our Exclusion Criteria  |
|---|---|
| <b>X</b><br>Generally excluded across all Berenberg platforms | Soft commodities   Landmines   Cluster bomb systems   |
| <b>&gt;10%</b><br>Share of turnover                           | Thermal coal   Nuclear energy   |
| <b>&gt;5%</b><br>Share of turnover                            | Arms industry   Tobacco products   Oil sands   Pornography  |
| <b>X</b>  | Alcohol distilleries   Firearms   |
| <b>X</b>  | <p><b>Violations of UN Global Compact Principles and International Labor Organization Conventions</b></p> <p><b>Human rights</b> (in particular general human rights concerns, civil liberties, rights of indigenous people)</p> <p><b>Labor</b> (in particular child &amp; forced labor, union and collective bargain issues)</p> <p><b>Environmental</b> (in particular issues related to climate change and environmental impact, supply chain)</p> <p><b>Corruption and bribery</b></p> |

*In May, Berenberg WAM published its ESG Exclusion Criteria for both equities and fixed income (corporate and sovereign debt). The ESG Exclusion Policy is available for download [here](#):*

## Berenberg WAM Proxy Voting Policy

At Berenberg WAM, we believe that proxy voting is an effective way to communicate our views to companies and to directly influence corporate policies.

Though, we do not carry the rights to vote, we have a comprehensive proxy voting policy which we are able to use and provide our voting recommendations.

The idea and notion of voting is to ensure that companies are continuously sustainable and that they adhere to good corporate governance standards. Therefore, this maximizes not only shareholder but also stakeholder value.

*Berenberg WAM has its own Proxy Voting Policy since March 2019. For more information, the Proxy Voting policy is available for download [here](#):*



### Growth in the market



ESG investing is gaining tremendous traction from investors. Globally, sustainably investing assets in the five major markets (Europe, US, Canada, Japan and Australia & New Zealand) stood at \$30.7 trillion at the start of 2018. The “Forum Nachhaltige Geldanlage” (FNG) recently reported, sustainably managed AUM in Germany amounted to > € 130 Billion in the end of 2018, which is a 45% increase compared to 2017 – the largest increase ever measured by FNG.

*FNG, 2019 Report*

*GSIR, 2018 Report*

### EU Draft “Green Taxonomy”



In June 2019, the European Commission’s Technical Expert Group (TEG) on sustainable finance published its final recommendations for a “taxonomy” of environmentally sustainable activities. The EU taxonomy is a tool to help investors understand whether an economic activity is environmentally sustainable. The User’s summary provides a short report on the taxonomy. The TEG will issue a call for feedback by early July and continue working until December, when a final report will be submitted to the European Commission.

*The Taxonomy has six environmental objectives:*

- i. Climate change mitigation*
- ii. Climate change adaptation*
- iii. Sustainable use and protection of water and marine resources*
- iv. Transition to a circular economy, waste prevention and recycling*
- v. Pollution prevention and control*
- vi. Protection of ecosystems*

*Taxonomie Users Summary*

### State of Hessen becomes first state to sign the PRI



The German State of Hessen has become the first in Germany to sign the Principles for Responsible Investment (PRI), as part of its efforts to strengthen its sustainable investing policies, which will see it exclude fossil fuels and nuclear energy, and look to ESG in its sovereign bond portfolio.

*IPE, 2019*

### Church of England and Swedish pension fund engage with mining industry



On behalf of 96 investors with AUM of £12trn, the Church of England Pensions Board and the Swedish Council on Ethics wrote to 683 listed mining companies, demanding full disclosure on mine waste storage facilities following the Brumadinho dam disaster in Brazil earlier this year.

### UK commits to net-zero emissions by 2050



The commitment of the UK, to be made in an amendment to the Climate Change Act, would make the UK the first member of the G7 group of industrialized nations to legislate for net zero emissions.

*Guardian, 2019*



We would like to highlight two ESG research publications, which contribute to a deeper understanding of ESG.

**Giese and Lee (2019)** examined strategies focused on obtaining a financial benefit from ESG ratings. The findings indicate that ESG characteristics had a positive effect on risk, in particular in mitigating tail risks.

*Giese, G. & L. Lee. "Weighing the Evidence: ESG and Equity Returns."*

**Serafeim and Amel-Zadeh (2017)** point out survey-based data on why and how senior investment professionals use reported ESG information. They find relevance to investment performance to be the most frequent motivation for use of ESG data followed by client demand and product strategy.

*Amel-Zadeh, A., & G. Serafeim. "Why and How Investors Use ESG Information: Evidence from a Global Survey."*



## Publisher

Berenberg ESG Office

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Dr. Rupini Deepa Rajagopalan is Head of the Berenberg ESG Office since March 2018 and supports our Wealth and Asset Management team in their sustainable investment products and offerings. She is responsible for the ESG policy, strategy, investment positioning, integration, product offering and innovation for Berenberg's Wealth and Asset Management division. Before her role as Head of ESG Office, she was a Junior Professor of Business Administration especially in Social Investment at the University of Hamburg. Prior to that she has worked in various positions for banks and consulting firms in the USA and Malaysia. Dr. Rajagopalan received her doctorate in finance from the University of Reading in UK.

The publications released by the ESG Office include the following issues

- ▶ [ESG Update for Berenberg Staff](#)
- ESG Exclusion Policy
- ESG Proxy Voting Policy
- Understanding SDGs in Sustainable Investing

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