BERENBERG

PARTNERSHIP SINCE 1590

BERENBERG WEALTH AND ASSET MANAGEMENT

IMPACT REPORT

BERENBERG SUSTAINABLE EURO BONDS

September 2021

Berenberg

Established in 1590, today Berenberg is one of the leading private banks and one of the most dynamic banks in Europe. Our business is based on client focus, responsibility, first-class knowledge and solution-oriented thinking. Our Wealth Management, Asset Management, Investment Banking and Corporate Banking divisions offer solutions for private and institutional investors, companies and organisations.

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Foreword

Generating measurable positive impact on society and the environment – this is what we look for in companies and issuers when investing for our impact-focused investment funds.

We live in a time where we face massive economic, social, and environmental challenges. This includes finite resources, a growing world population, increasing inequality and climate change. With the rise of these challenges, we recognise and appreciate clients' desire to use their investments as a tool to facilitate solutions to these issues.

Therefore, we consider ESG aspects to be one of the key factors in our investment decision-making. By considering ESG factors, we are able to identify and monitor risks arising from controversial business practices as well as identifying responsible and sustainable business models with good corporate governance. In addition, through our active dialogue, we encourage and support companies and issuers in meeting their responsibilities towards society and the environment.

In our impact-focused investment funds, we complement the integration of ESG factors with the inclusion of companies and issuers that help to solve global challenges with their products and services. These funds invest in companies and issuers whose business models or dedicated projects create added value for the environment and society based on structural growth trends and sustainable profitability, both in terms of its nature and longevity.

This added value – the impact – is what we aim to showcase with this report. We have developed a proprietary approach to measure impact by which we capture the positive effect as well as potential negative externalities that our invested portfolio holdings generate. This is the first year in which we publicly report on our findings based on our proprietary impact approach and, going forward, we will update the report annually.

Matthias Born
Co-Head Wealth and Asset Management
Berenberg Wealth and Asset Management

Dr Rupini Deepa Rajagopalan
Head of ESG Office
Berenberg Wealth and Asset Management

Impact Spotlights[1]

The Four Global Challenges

Via its products or services, every portfolio position contributes to the solution of one of the four defined global challenges within our impact framework.

13 %
of portfolio positions address this challenge

Demography & Health

- **Motability** provides **635,000 customers with disabilities access** to affordable, worry-free **mobility solutions**, thereby improving social inclusion

11 %
of portfolio positions address this challenge

Responsible Use of Resources

- **Xylem's** solution prevented more than **7bn cubic meters of polluted water** from entering local waterways
- In 2020, **Veolia recycled 391,000 tons of plastic** in transformation plants and treated 5.2bn m^3 of wastewater

29 %
of portfolio positions address this challenge

Sustainable Growth & Innovation

- Proceeds of **CaixaBank's social bond** contributed, among others, to the creation of **8,207 jobs** in Spain
- Proceeds of **Cassa Depositi's social bond** were invested in **235 social housing projects**, with an estimated impact of 4,226 additional social housing units and 1,788 assisted living beds

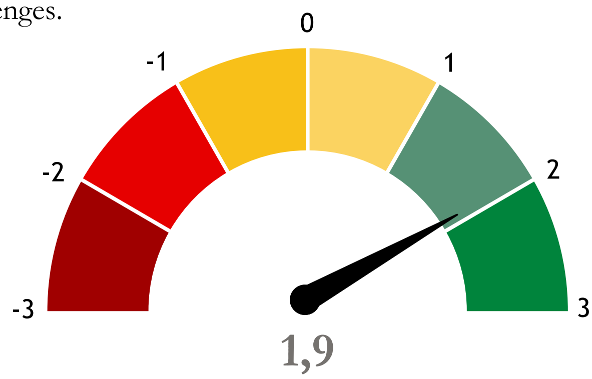
45 %
of portfolio positions address this challenge

Climate Change

- The **ERG green bond** financed **476MW of renewable energy** capacity, leading to estimated CO_2 savings of 261,000 tons in 2020
- **Ørsted** plans to double its offshore wind capacity by 2025 - enough **clean energy** to power more than **30m people**

The Berenberg Net Impact Score

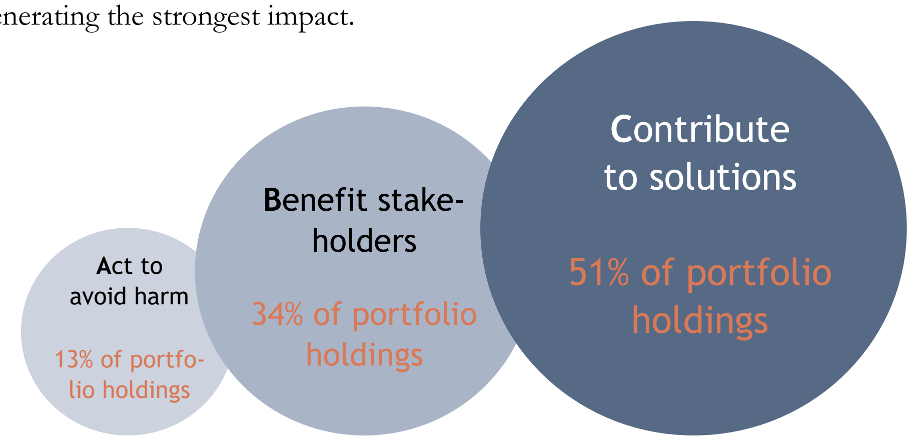
Via the Berenberg Net Impact Model application, we obtain a Net Impact Score at the portfolio level, which can range from -3 to 3. A score higher than 0 indicates a net positive impact in relation to the four defined global challenges.



[1] The Berenberg Net Impact Model is applied to the portfolio as of March 31st 2021. All graphic representations are our own.

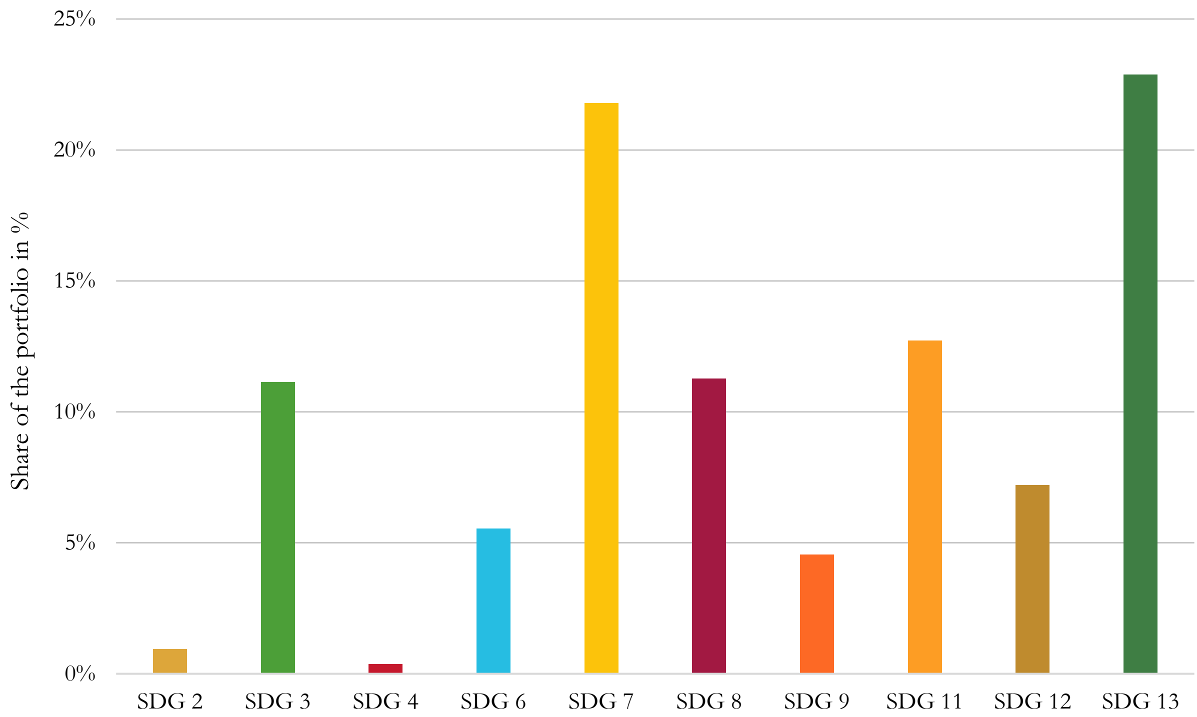
The ABC Model

Within the classification scheme of the ABC model by the Impact Management Project (IMP)[2], we evaluate the criticality of companies' or issuers' solutions and classify them into the categories "Act to avoid harm" (A), "Benefit stakeholders" (B) and "Contribute to solutions" (C), with C being the category generating the strongest impact.



The Sustainable Development Goals

We map our portfolio holdings according to their contribution to ten of the most investible Sustainable Development Goals by the United Nations. More information on the SDGs can be found in the dedicated SDG chapter.



[2] See "IMP – A Guide to Classifying the Impact of an Investment", available at https://impactmanagementproject.com/impact-management/how-enterprises-manage-impact/.

Impact at Berenberg – An Introduction

At Berenberg Wealth and Asset Management, our impact-focused investment funds apply a holistic approach to sustainability, and we combine several investment process elements to provide a sound approach to impact. Firstly, we integrate strong ESG aspects in our investment process via exclusions and analysis. Secondly, we make use of active ownership activities such as engagement. Finally, as an additional step exclusive to our impact-focused strategies, we apply an impact framework. The following sections go into further detail.

The Baseline: ESG Integration

As a solid foundation, our impact-focused investment funds use ESG integration tools such as exclusions, screening and ESG analysis. Generally, we recognise that the integration of ESG helps our portfolio management to adequately analyse risks and returns. We incorporate ESG criteria by analysing ESG risks and opportunities using our own research and via third-party providers. The open dialogue between our investment and ESG professionals allows us to integrate their industry experience and knowledge into our ESG approach and to develop and strengthen it continuously. In addition to our standard ESG exclusions, which apply to the entire Berenberg Wealth and Asset Management platform[3], the impact-focused investment funds apply additional exclusion criteria in order to further mitigate the risk of potential adverse effects and to avoid clear negative impact investments. For more information, see our ESG Policy and our Exclusion Policy, which is available at www.berenberg.com/esg.

Inducing Positive Change via Active Ownership

Active ownership activities such as direct company engagement are part and parcel of our ESG and impact-focused approach and key tools in understanding company behaviour when it comes to sustainability issues. Having an open dialogue with companies and other issuers encourages transparency and allows us to gain better insights. We regularly engage with companies and consistently monitor our engagement results. Through our engagement, we are not only able to make investment decisions in regards whether we buy, sell or hold – as an active investor, we also help to improve the sustainability profile of companies in the long term and reduce risks. We believe that our active ownership approach can create positive change in the issuer or company and can, ultimately, benefit society or the environment and help to overcome global challenges. For more information, see our Engagement Policy as well as our Active Ownership Report, which is available at www.berenberg.com/esg.

[3] Further information on the application scope of our exclusions can be found in our publicly available Berenberg WAM Exclusion Policy, available at www.berenberg.de/en/esg.

The Value Add: Our approach to Impact

For our impact-focused investment funds, we apply an additional impact framework, which consists of targeting specified global challenges with our investments as well as a proprietary impact measurement and analysis tool. We use this impact approach to exclusively invest in portfolio holdings that generate a measurable positive impact on the environment and society.

Our impact approach has developed over time, reflecting our long-standing experience within this segment. Apart from continuously monitoring ongoing market developments, we conduct our own studies and compose white papers on relevant ESG- and impact-related topics, which has helped to form our approach and confirmed our impact-related perspectives. We strive to further evolve our approach and do not shy away from challenging our views.

Confirmed by the findings of our study[4] from 2018 and its update from 2021[5], we identified the United Nations' Sustainable Development Goals (SDGs) that are investible as well as important. Based on these findings, we developed a set of four key global challenges, namely:

- Demography & Health;
- Climate Change;
- Sustainable Growth & Innovation; and
- Responsible Use of Resources

These four challenges are at the heart of our impact framework and every portfolio holding in our impact-focused investment funds undergoes in-depth impact analysis, within which we assess the portfolio holdings' contributions to the respective challenges. We also map them to the Sustainable Development Goals based on their contribution.

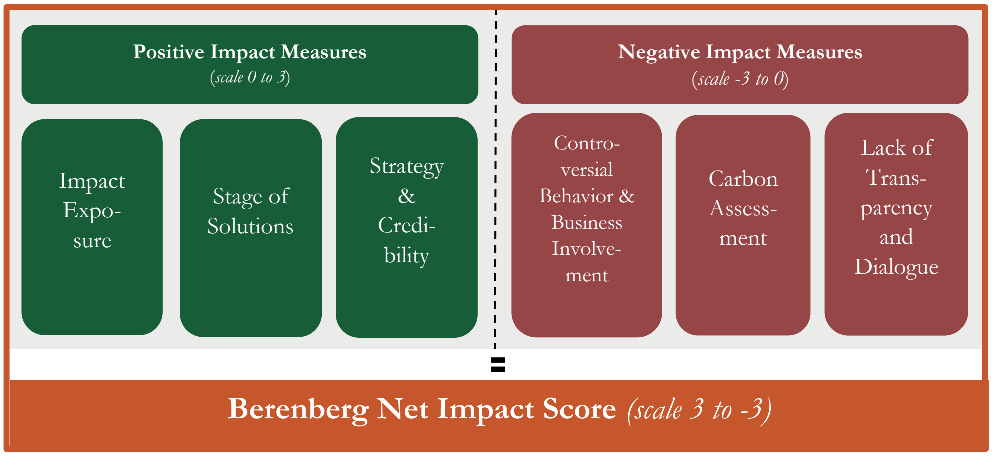
A further aspect within our impact-related framework is the development of a proprietary Berenberg Net Impact Model, in which we holistically analyse and assess the positive as well as potentially negative impact of our portfolio holdings. We discuss the details and methodology in the next chapter.

[4] See Berenberg ESG Office Study on the SDGs "Understanding the SDGs in Sustainable Investing", available at www.berenberg.de/en/esg

[5] See Berenberg Wealth & Asset Management Study "Berenberg ESG Survey: Exploring investor sentiment", available at www.berenberg.de/en/esg

Berenberg Net Impact Model — Our Methodology

We use our proprietary Berenberg Net Impact Model to comprehensibly quantify the positive and potentially negative impact that our portfolio holdings generate in relation to the four defined global challenges of Demography & Health, Climate Change, Sustainable Growth & Innovation and Responsible Use of Resources. We defined specific measures in the positive as well as the negative impact space, with which we aim to holistically capture the net impact of our portfolio holdings. For each holding, every impact measure is analysed individually and given a score, which is summed up at the issuer or company level and finally aggregated at the portfolio level. These scores are based on quantitative and qualitative measures.



The positive impact measures do not only capture the contribution of the business model to one of the four global challenges, but also consider the stage of impact as well as the company's strategy and credibility. In our view, this provides a more holistic and forward-looking view on a company's positive impact. Within specified assessment frameworks for each pillar, we award scores between 0 and 3.

- The pillar *Impact Exposure* quantifies the extent to which a portfolio holding addresses one of the four global challenges via its product and service offering. The measure relies on several financial metrics such as revenue exposure to one of the global challenges, and accounts for adjustments that capture future-orientated efforts such as R&D spending, capex investments and sector-specific key performance indicators.
- The pillar *Stage of Solutions* integrates the ABC approach as defined by the Impact Management Project (IMP)[6]. The criticality of a company's or issuer's solutions are analysed and classified into the categories "Act to avoid harm" (A), "Benefit stakeholders" (B) and "Contribute to solutions" (C), with C being the category generating the strongest impact.

[6] See "IMP – A Guide to Classifying the Impact of an Investment", available at https://impactmanagementproject.com/impact-management/how-enterprises-manage-impact/

- On a company level, the pillar *Strategy & Credibility* considers the depth and ambition of ESG-related commitments and targets as well as achieved performance that underline the company's credibility. In a forward-looking way, this pillar seeks to capture how far companies have embedded their sustainability and impact-related efforts into their cultures, their DNA and overall business strategy. This measure relies on publicly available information regarding the company's sustainability key performance indicators

Similarly, the negative impact measures seek to quantify the negative externalities of the issuer or company. Within specified frameworks, we award scores between -3 and 0.

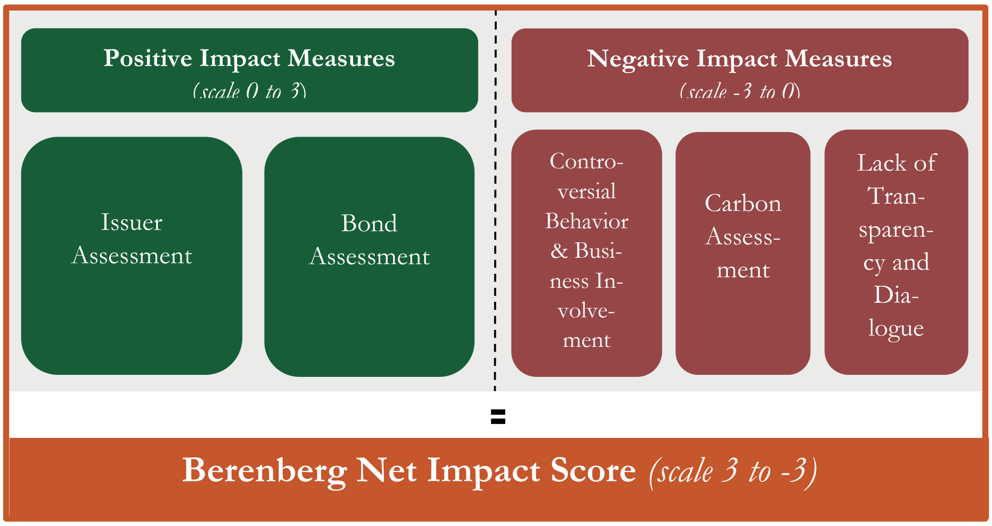
- In the pillar *Controversial Behaviour & Business Involvement* we analyse (potentially) existing controversial behaviour and conflicts as well as involvements in and exposure to controversial business sectors and activities. The measure relies on the data and analysis framework from our external data provider, which is complemented with our own research as well as potential adjustments such as productive engagement activities.
- The pillar *Carbon Assessment* quantifies and evaluates a company's CO_2 impact as well as possibly existing countermeasures such as carbon reduction initiatives. We rely on data from our external data provider and use publicly available company information. The specified framework for this measure accounts for benchmark comparisons and sector-specific CO_2 levels.
- The pillar *Lack of Transparency & Dialogue* assesses the overall level of company transparency regarding ESG and impact data as well as openness to dialogue in the context of engagement activities.

The result of the model application is a Net Impact Score in a range of -3 to 3, whereas a score higher than 0 indicates a net positive impact in relation to the four global challenges. The maximum Net Impact Score of 3 demonstrates a strong positive impact and no or sufficiently offset negative impact.

Within the fixed income segment, certain adjustments to the Berenberg Net Impact Model presented above are required to capture the characteristics of fixed income investments fully and correctly. For this purpose, we differentiate between:

1. regular bonds, for which the proceeds are not exclusively tied to specific projects or assets and for which we consequently apply the model presented above based on the issuer's impact; and
2. use-of-proceeds bonds, such as green, social or sustainability bonds for which we apply an adjusted model.

In case of green, social and sustainability bonds (and similar structures), certain adjustments in the evaluation and scoring of the net impact are required. These bonds are issued under dedicated frameworks that govern the exact use of proceeds and include further requirements on their allocation and impact reporting. Investing in a green, social or sustainability bond means that the investor is directly providing funds to finance a specific environmentally or socially beneficial project – this may include the financing of a new wind park or the development of a rare disease treatment. Consequently, we incorporate the direct positive impact the investment in a green, social or sustainability bond has into our scoring approach. This also implies that the current impact of the issuer and its business model must be evaluated differently. Particularly, green and sustainability bonds are often issued by companies that we would describe as transition stories or as issuers that play a vital role in the transition to a low-carbon economy. Therefore, the most relevant factor for these issuers is not the impact they already have through their current business activities, but the successful transition to being a more sustainable issuer, their future positive impact as well as the direct impact we can have through the use-of-proceeds feature of green, social and sustainability bonds.



Consequently, the positive impact pillar is adjusted, and we assess and score the issuer as well as the bond itself as below.

- The pillar *Issuer Assessment* only scores the strategy and credibility of the bond issuer and neglects the (potential) current impact of the business model itself. We focus on the sustainability strategy, transition ambitions and what role the issued green, social or sustainability bond plays within the issuer's overall business activities and strategy.
- The pillar *Bond Assessment* evaluates the direct positive impact of the green, social or sustainability bond that results from the financed projects and assets. We focus on the actual value-add from the projects or assets (*Impact Exposure*), the consistency and quality of the *Bond Framework* as well as the allocation and impact reporting (*Transparency & Impact Reporting*). Additionally, we apply the ABC

approach mentioned above to score the *Stage of Solution* that the specific projects provide.

Similar to the presented standard model, we also include the negative impact and externalities that the issuer of a green, social or sustainability bond may have on the environment or society. Hence, the negative impact pillar ("Negative Impact Measures") always refers to the issuer and is identical to the negative impact measurement we have already introduced.

Comprehensive and valid data is crucial to our Berenberg Net Impact Model. We rely on publications from portfolio holdings and data from our external ESG data provider. We additionally integrate information which we gather through our engagement activities, from sell-side research or other relevant sources.

For our assessments and scoring methodology, we specify clear scoring frameworks to arrive at objective and comprehensible scoring results. However, there remains a discretionary part within the model for which we, at this point, cannot establish specified and reasonable thresholds. We realise that this could be a potential shortcoming of the model, however, we also see benefits in establishing a methodology which is not entirely rigid and thus able to reflect the unique opportunities or challenges in specific business models. We discuss our view on this and our envisioned outlook for future developments in the "Outlook" section.

Demography & Health

The Challenge of Demography & Health

The United Nations' Sustainable Development Goal 3 aims at improving the lifelong health and well-being of all people. Although major advances in medicine have been made over the past decades, inequality regarding the healthcare levels of different countries remains high, and new challenges arise as the global population becomes wealthier and lives longer. Similarly, the Goal of ending hunger and malnutrition (SDG 2) persists and its hurdles change throughout the decades.

The trend is clear: The World Health Organisation estimates that the share of people aged 60 years and older will rise from 12% in 2015 to 22% of the world's population in 2050.[7] With it, typically age-related diseases such as cancer, dementia and cardiovascular diseases now represent the by far most common causes of death. Chronic diseases such as type 2 diabetes and hypertension, which are often lifestyle-related, are also on the rise.[8] At the same time, medical treatments and innovations need to be distributed more equally. Regarding nutrition, the United Nations estimates that, in 2019, an estimated 2bn people did not have regular access to safe, nutritious and sufficient food.[9]

Contributing to the Solution — Our Portfolio Holdings

In the face of these challenges, there is a strong need for innovative solutions, which are of high quality but also affordable. Many companies have specialised in offering exactly that. For example, new technologies in the space of pharmaceuticals and data-driven solutions already contribute to a better understanding of diseases and allow for more accurate diagnoses as well as personalised and potentially less invasive treatments. Further, companies offering healthcare services and elderly care solutions are important facilitators to overcome challenges, as are companies focusing on healthy and environmentally sustainable nutrition.

Our portfolio positions[10] [11] addressing the challenge:

Amplifon	Corporacion Andina (S)	Danone (S)	Essity
Grifols	Icade Sante (S)	Kerry	LBBW (S)
Motability (S)	Wellcome Trust		

[7] https://www.who.int/news-room/fact-sheets/detail/10-facts-on-ageing-and-health
[8] https://ourworldindata.org/causes-of-death
[9] https://www.un.org/sustainabledevelopment/hunger/
[10] As of 31 March 2021
[11] Supplements behind portfolio positions: (G) = Green Bond, (S) = Social Bond, (ST) = Sustainability Bond

A Case Study – Wellcome Trust

Company Overview

Wellcome Trust is a London-based independent charitable foundation dedicated to improving health by funding research into biosciences and the development of treatments, cures and diagnostics for a wide range of illnesses and diseases. Research and advocacy are funded through the charity's endowment of GBP29.1bn.[12]

Positive Impact

Wellcome Trust's mission is to improve health through research. The charity directly funds scientists and researchers around the world to address fundamental health challenges such as drug-resistant infections or mental health. Since 2017, the charity has maintained an average funding level of cGBP900m pa for its core activities: supporting researchers, campaigning for public health issues and public engagement. In the financial year 2019/2020, charitable expenditures amounted to almost GBP1.1bn. Recognising the value of international cooperation, Wellcome Trust is actively partnering with communities, businesses, and organizations in more than 70 countries with the goal to attract additional funding. Funded or initiated projects include the development of an Ebola vaccine, the mapping of 30% of the human DNA sequence (Human Genome Project) or the Covid-19 Therapeutics Accelerator (CTA) to fund Covid-19 research, clinical trials and product development. Through its activities and provision of substantial financial resources, the charity has a material positive impact on global health and human well-being, thereby contributing to our challenge of Demography & Health.

Potentially Adverse Impact

Given the type of its business activities, Wellcome Trust has a low carbon footprint and no material negative environmental impact from its operations. The charity sufficiently reports on relevant sustainability aspects. Additionally, Wellcome Trust does not face controversies relating to problematic behaviour and is not involved in any controversial business activities.

Summary

Berenberg Net Impact Score	3,0	
Sustainable Development Goals	3	3 GOOD HEALTH AND WELL-BEING
ABC Classification	C	

[12] Based on Wellcome Trust's Annual Report for the FY2019/2020: https://cms.wellcome.org/sites/default/files/wellcome-trust-annual-report-financial-statements-2020.pdf

Climate Change

The Challenge of Climate Change

Climate change is humanity's greatest challenge. Its consequences pose risks for specific sectors, companies, and countries. These include physical risks caused by natural disasters and changing weather patterns as well as more frequent and more extreme weather events, but also so-called transition risks, which relate to the ability of companies to transition to low-carbon or climate-neutral business models. In addition to the direct impacts, progressive climate change and the associated global warming have potentially significant negative effects on the achievement of the United Nations Sustainable Development Goals.

The report of the Intergovernmental Panel on Climate Change (IPCC) published in 2018 stresses the relevance of achieving the goal to limit global warming to 1.5°C, since the risks arising from climate change become even greater beyond this.[13] Annual greenhouse gas (GHG) emissions are now more than 50% higher than in 1990. While all countries experience the effects of climate change, countries that are not accountable for high emissions are often hit harder due to missing resources to withstand negative effects.[14]

Adding to the Solution — Our Portfolio Holdings

We recognise our responsibility to contribute to the fight against climate change through our investment decisions and collaboration with our portfolio companies and other investors. We believe that the necessary transition to a low-carbon economy also offers opportunities. For example, we welcome innovations in the renewable energy and energy efficiency sectors. Especially in industrial applications or the real estate sector, these can induce meaningful positive change. Also, new technologies that optimise the control and regulation of cooling systems in data centres or research in renewable natural gas positively contribute to mitigating climate change.

[13] See "Global warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty, available at: https://www.ipcc.ch/sr15/chapter/spm/

[14] https://ourworldindata.org/greenhouse-gas-emissions

Our portfolio positions[15] [16] addressing the challenge:

AIB (G)	ALD (G)	Generali (G)	Banco Sabadell (G)
BFCM (G)	Commerzbank (G)	CPI Property (G)	DeVolksbank (G)
Digital Realty (G)	DNB (G)	Drax	Equinix (G)
ERG (G)	ESB (G)	Eurogrid (G)	Greenko (G)
Iberdrola (G)	KfW (G)	Kommunekredit (G)	LeasePlan (G)
Mediobanca (G)	NIB (G)	NordLB (G)	NRW Bank (G)
Ontario Teachers Finance (G)	Orsted (G)	RBI (G)	Red Electrica (G)
Shinhan Bank (G)	Signify	Société Générale (G)	Sparebank 1 (G)
Sparebank Vest (G)	Statkraft	Sumitomo (G)	Svenska Handels-banken (G)
Telia (G)	Tennet (G)	Volvo (G)	

[15] As of 31 March 2021
[16] Supplements behind portfolio positions: (G) = Green Bond, (S) = Social Bond, (ST) = Sustainability Bond

A Case Study - Ørsted

Company Overview

The Danish company Ørsted is globally the largest developer and operator of offshore wind farms with an installed capacity of c12GW in renewable energy.[17] Over the past 15 years, Ørsted has been successfully transitioning from a fossil fuel-focused energy company to a renewable energy pioneer.

Positive Impact

Most of the world's energy consumption still comes from environmentally harmful fossil fuels – Ørsted is a pioneer in the offshore wind segment, trying to actively accelerate the transition towards renewable energy. To achieve this goal, Ørsted is heavily investing in new technology and the expansion of its wind energy capacity. It is targeting to spend DKK200bn until 2025 for the expansion of its offshore and onshore wind, sustainable biomass and solar energy capacity.[18] As of 2020, Ørsted is already supplying green power for more than 15m people and the company estimates that its offshore wind farms helped to avoid 8.1m tonnes of CO_2e from being released, thus materially addressing the challenge of Climate Change. Furthermore, the company's ambition is to double its renewable energy capacity by 2025 and supply clean power to more than 55m people by 2030.

Potentially Adverse Impact

Ørsted comprehensively reports on its sustainability metrics and does not face any material controversies. As of 2020, Ørsted derives close to 3% of its revenues from coal power generation[19] and thus generates greenhouse gas (GHG) emissions. However, Ørsted has a clear coal phase-out strategy by 2023. Further, the company sets highly ambitious climate targets and plans to achieve carbon neutrality for Scope 1 and 2 emissions by 2025 (and include Scope 3 by 2040).

Summary

Berenberg Net Impact Score	**2,4**
Sustainable Development Goals	**7 & 13**
ABC Classification	**C**

[17] As of June 2021, per Ørsted's capital markets day 2021 presentation
[18] Ørsted Website: https://orsted.com/en/about-us/about-orsted/powering-the-world-with-green-energy
[19] Based on data from MSCI ESG, retrieved 31 March 2021

Sustainable Growth & Innovation

The Challenge of Sustainable Growth and Innovation

While economic growth might not be an end in itself, it has significant effects on global levels of poverty. However, against the background of climate change and finite natural resources, economic growth needs to be environmentally sustainable while at the same time adhering to and promoting social standards such as fair and inclusive labour practices. As defined by the United Nations' Sustainable Development Goal 8, the aim is to achieve sustained, inclusive, and sustainable economic growth with full and productive employment and decent work for all.

Innovation is one of the fundamental factors when it comes to both an individual company's success and stable and sustainable economic growth. Creating and fostering corporate cultures that accelerate highly innovative ideas requires ongoing effort – yet only those companies making this effort remain economically viable and can, ultimately, solve global challenges and induce positive change.

Further, education and, in a wider sense, social enablement and empowerment are essential aspects in achieving the goal of smart, green and fair growth for the global population. Although major advancements have been made in recent decades, achieving inclusive and equitable quality education, as aimed for by the United Nations' Sustainable Development Goal 4, is still a long way off.

Contributing to the Solution — Our Portfolio Holdings

Companies offering solutions to this challenge contribute, among other things, to financial inclusion, access to and affordability of public transportation, or the reduction of dependence on non-renewable resources. Easily accessible and low-cost technologies can advance education and skills or help small businesses create jobs sustainably. Further, affordable housing and solutions that advance inclusive, sustainable cities are needed. Generally, R&D expenditure and strong innovation capabilities can lead to the development of much needed solutions

Our portfolio positions[20] [21] addressing the challenge:

Adif (G)	BNG (ST)	BPER Banca (S)	CaixaBank (S)
Caja Rural (ST)	Cassa Depositi (S)	Chile (G)	Madrid (G)
Council of Europe (S)	Deutsche Bahn	Eurofima (G)	EU (S)
Ferrovie (G)	Hamburger Hochbahn (G)	Hypo Tirol (S)	ICO (S)
Kookmin (ST)	Korea Housing Finance (S)	Municipality Finance (G)	KutxaBank (S)
NatWest (S)	NWB (S)	West African Development Bank (ST)	

[20] As of 31 March 2021

[21] Supplements behind portfolio positions: (G) = Green Bond, (S) = Social Bond, (ST) = Sustainability Bond

A Case Study - CaixaBank

Company Overview

CaixaBank is a large Spanish universal banking group, active in retail, corporate and investment banking. With c21m customers, 6,300 branches and an extensive geographical presence, CaixaBank is one of the largest banking groups in Spain and plays a vital role for the financial inclusion of the country.[22]

Positive Impact

The social mandate is embedded in the bank's DNA, as CaixaBank is partially owned by the "laCaixa" Banking Foundation that channels substantial financial resources towards social and cultural development in Spain. The social mandate is also explicitly incorporated in the bank's strategy, targeting further social inclusion and a contribution to SDGs 1 (No Poverty) and 8 (Decent Work and Economic Growth). With its entity MicroBank, the leading bank for micro loans in Spain with a social focus, CaixaBank contributes to the creation of employment and the improvement of financial and social inclusion. CaixaBank is funded, among others, through social bonds, whose proceeds are utilised to provide loans under strict eligibility criteria that ensure financial inclusion and provision of banking services to socially disadvantaged parts of the population, or companies in economically disadvantaged regions of Spain. Proceeds of the invested social bond, for example, were used to finance more than 147,000 loans to underserved individuals and families and more than 13,000 loans to self-employed workers, micro-enterprises and SMEs. These loans contributed to the creation of 8,207 jobs.[23]

Potentially Adverse Impact

Due to its business activities, CaixaBank has a very low carbon footprint. Nevertheless, it is 100% carbon neutral, and has been the first listed bank in Spain to fully offset its carbon footprint. The bank comprehensively reports on its sustainability performance and relevant metrics. CaixaBank faces a potential controversy related to governance practices in its banking business, which we monitor.

Summary

Berenberg Net Impact Score	**2,2**	
Sustainable Development Goals	**8**	8 DECENT WORK AND ECONOMIC GROWTH
ABC Classification	**C**	

[22] As of first quarter 2021 per CaixaBank Website: https://www.caixabank.com/en/about-us.html
[23] Social Bond Impact Report: https://www.caixabank.com/en/shareholders-investors/fixed-income-investors.html

Responsible Use of Resources

The Challenge of a Responsible Use of Resources

The planet's natural resources are finite. Yet they are central to human wellbeing, as they form the basis of our health and prosperity. Over time, the global use of resources has increased, accelerated by industrialisation and globalisation. At this point, some natural resources are overexploited. This in turn threatens livelihoods and jeopardises whole ecosystems.[24]

Numbers can give a sense of the extent of this. The global use of freshwater has increased almost sixfold since 1900 to c4trn m^3 in recent years.[25] Globally, c368m tons of plastics were produced in 2019[26], but only 9% of the plastics manufactured between 1950 and 2015 was recycled.[27]

To mitigate the adverse effects of the overuse of natural resources, a drastic change of consumption and production patterns is required. Resource efficiency during production processes is often a starting point. Further, innovative technologies that decouple natural resource use and environmental impact from economic activity are needed. Measures that mitigate scarcity, reduce losses, and optimise resource management systems can positively induce change and accelerate a transition towards a circular economy.

Contributing to the Solution – Our Portfolio Holdings

Companies offering solutions to this challenge contribute, among other things, to a drastic reduction of resources used and advance their recycling capabilities. This can, for example, include: avoiding and reducing packaging or replacing it with innovating packaging solutions; cutting the amount of food waste; and protecting and managing water as well as optimising its use. Further, sustainable solutions to treat and manage waste and new recycling technologies are much needed.

Our portfolio positions[28] [29] addressing the challenge:

Acea (G)	**EcoLab**	**FCC Aqualia**	**FCC Medio Ambiente (G)**
JFM (G)	**Landsbankinn (G)**	**Mondi**	**Suez**
UPM-Kymmene (G)	**Veolia**	**Xylem**	

[24] https://www.iisd.org/articles/sustainable-use-natural-resources-governance-challenge
[25] https://ourworldindata.org/water-use-stress
[26] https://www.statista.com/topics/5401/global-plastic-waste/
[27] https://www.oecd.org/environment/waste/policy-highlights-improving-plastics-management.pdf
[28] As of 31 March 2021
[29] Supplements behind portfolio positions: (G) = Green Bond, (S) = Social Bond, (ST) = Sustainability Bond

A Case Study — Xylem

Company Overview

Founded in 2011, US-based Xylem provides water technologies for public, residential and commercial uses. The products offer solutions for water infrastructure, such as wastewater transport and treatment as well as water-related measurement and control devices and building services. Xylem has c17,000 employees worldwide and operates in 150 countries.

Positive Impact

In 2020, Xylem's treatment solutions helped its customers to reuse 4.3bn m^3 of water, while its efficient products and solutions helped to reduce their carbon footprint by 0.7m metric tons of CO_2. Through dewatering and digital technologies, its customers were able to prevent 1.4bn m^3 of polluted water from entering local waterways. Partly in collaboration with non-profit partners, Xylem has provided 4.1m people in developing countries with access to clean water and educated 3.6m people to improve their awareness of water challenges.

With its highly efficient and innovative solutions along the entire water cycle, Xylem contributes to solving the global challenge of water scarcity and affordability. Additionally, it focuses on providing its products and services in emerging markets, where water can be scarce. The company is thus able to drive positive change and provide a solution to pressing matters.

Potentially Adverse Impact

Via reducing energy consumption and increasing investments in renewable energy at its facilities, Xylem has significantly lowered its carbon emissions. It is highly transparent regarding its performance on environmental metrics and commitments to them. Xylem does not face controversies relating to problematic behaviour and is not involved in any controversial business activities.

Summary

Berenberg Net Impact Score	**3**	
Sustainable Development Goals	**6 & 12**	6 CLEAN WATER AND SANITATION 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
ABC Classification	**C**	

The Sustainable Development Goals

In our 2018 Berenberg ESG Office study "Understanding the SDGs in Sustainable Investing"[30] and its 2021 update "A Berenberg ESG Survey 2021"[31], we highlighted the SDGs that survey participants found most important on the one hand and most investible on the other hand. Based on this analysis, we developed the four key global challenges, namely Demography and Health, Climate Change, Sustainable Growth and Innovation and Responsible Use of Resources. They are at the heart of our impact framework.

Another part of our impact framework is the mapping of our portfolio holdings with respect to their contribution to some of the SDGs. As a first step, we assigned 10 investible SDGs to our four core global challenges (Figure 1).

Figure 1: Core Global Challenges and the SDGs
Source: Berenberg

In a second step, we mapped our portfolio holdings to the respective SDGs of the specific global challenge (see step one). Based on its primary contribution, each portfolio position is assigned to 1-3 of the SDGs. We show portfolio weights alongside the respective SDGs – if an investment contributes to several SDGs, the portfolio weight is allocated proportionately (Figure 2).

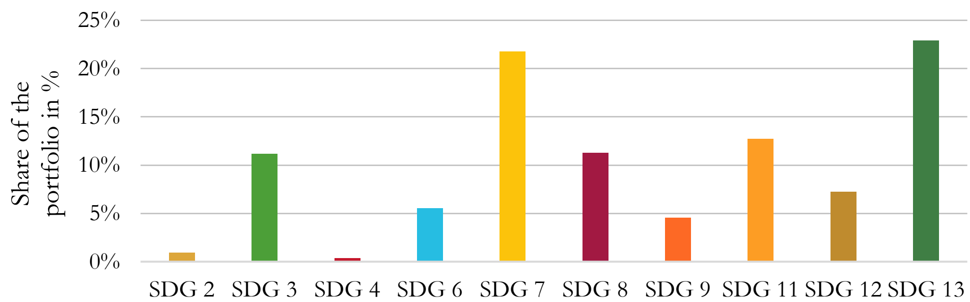


Figure 2: The portfolio holdings mapped to the SDGs
Source: Berenberg

[30] Berenberg ESG Office Study on the SDGs "Understanding the SDGs in Sustainable Investing", available at www.berenberg.de/en/esg

[31] See Berenberg Wealth & Asset Management Study "Berenberg ESG Survey: Exploring investor sentiment", available at www.berenberg.de/en/esg

Finally, as an additional view on the fund's contribution to the SDGs, we compare the Alignment Scores of the fund's portfolio with those of its benchmark, as shown in Figure 3. We use SDG Net Alignment Scoring data from an external data provider and combine this with our own Net Impact Score data. For constituents not covered by our internal analysis, we only use data from the external provider.

The graph shows the fund's relative positive SDG net alignment compared to that of the respective benchmark. It is important to note that the two methodologies, namely our own as well as the external data providers', are not identical. However, both are based on a similar approach of considering positive and negative contributions and scoring those respectively. We believe this to be a valuable further indication of the fund's performance when it comes to the SDGs.

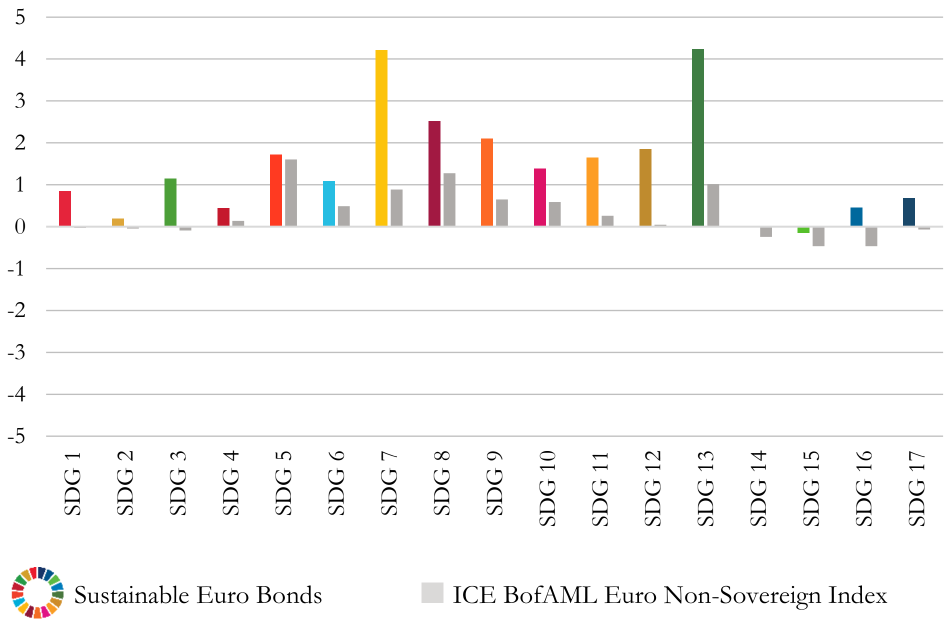
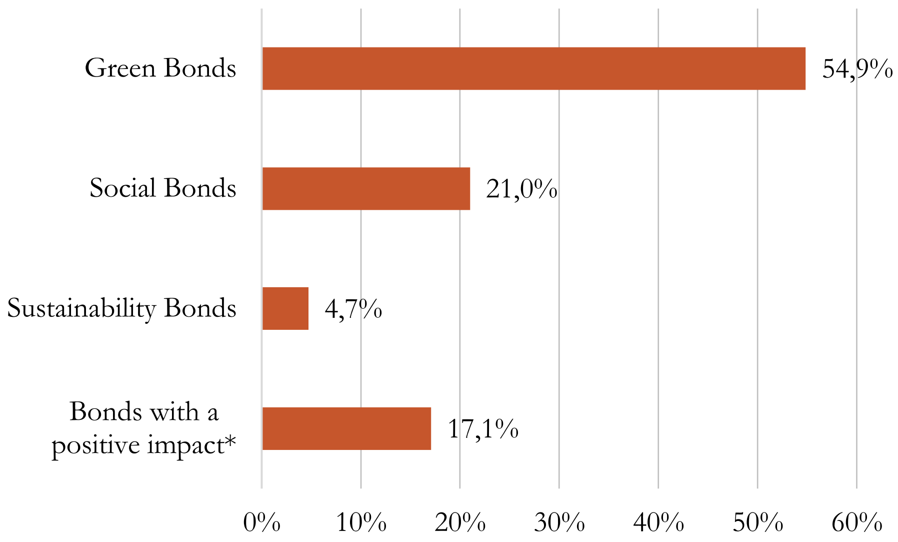


Figure 3: MSCI ESG Net Alignment of SDG Scores compared to the benchmark
Source: MSCI ESG, own calculations and presentation. Certain information © 2021 MSCI ESG Research LLc. Reproduced by permission

Additional ESG and Impact-related Information

Use of Green, Social and Sustainability Bonds

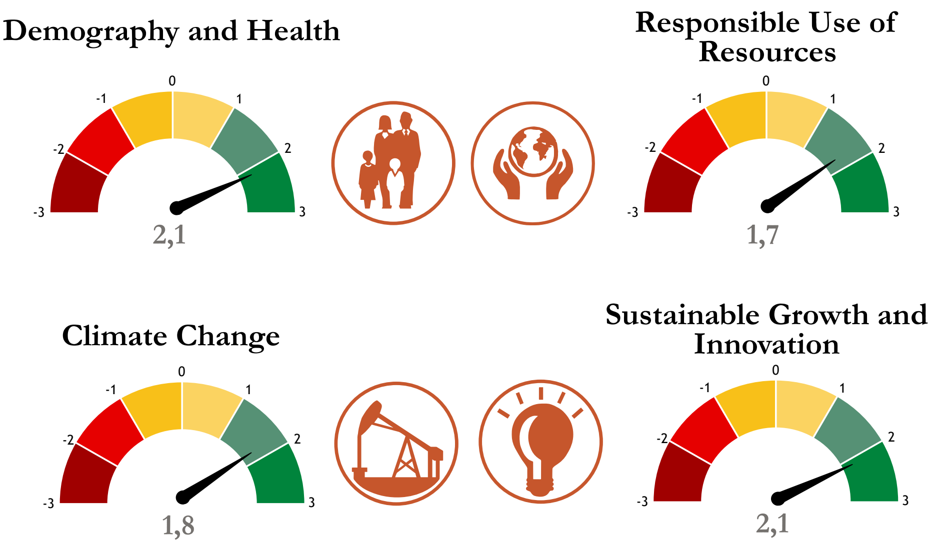
Share of Green, Social and Sustainability Bonds in the Portfolio



* Bonds from issuers that have a positive impact on the environment and society through their business model and offered products and services
Source: Bloomberg
Based on holdings as of 31 March 2021

Average Net Impact Score per Global Challenge

Additional to the portfolio level as shown within our "Spotlights" section, we measure and showcase the average Berenberg Net Impact Score per global challenge.



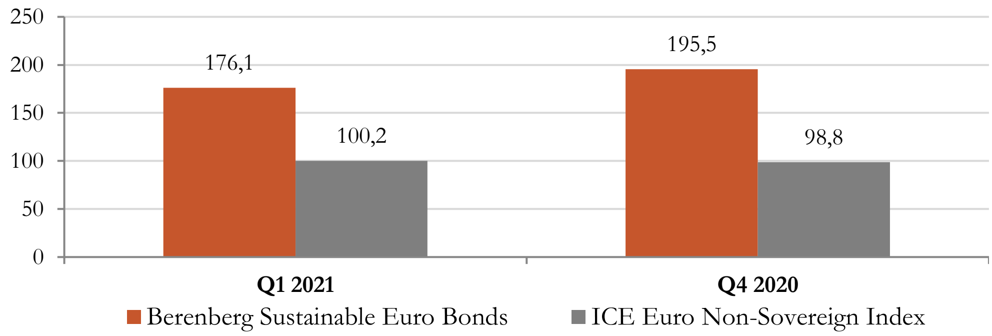
Carbon Intensity

As reported above, the Berenberg Sustainable Euro Bonds fund uses an impact approach in which we aim to positively contribute to our four global challenges and consequently also the SDGs through our portfolio holdings.

While the fund does not specifically target to minimise its carbon intensity, we recognise the importance of our companies' carbon exposure and climate impact, which is also why we explicitly incorporate the introduced *Carbon Assessment* pillar in our proprietary Berenberg Net Impact Model.

Additionally, we report on the carbon intensity of the portfolio compared to its benchmark (ICE BofAML Euro Non-Sovereign Index) in the following section. Please note that the following analysis and carbon data only refers to non-sovereign bond issuers within the fund and the benchmark. Hence, sovereign issuers (and certain sovereign-related issuers such as local authorities or supra-nationals) are not included in the analysis. In the carbon intensity analysis, 75.7% of the total fund portfolio, and 76.4% of the total benchmark are considered accordingly.

Carbon Intensity – Fund vs. Benchmark



The CO_2 Intensity (Scope 1 & 2 emissions in tonnes per USDm of revenue) per holding is multiplied by its scaled portfolio weight (current value of the investment relative to the current portfolio value excluding sovereign issuers and issuers for which no comparable data is available) and aggregated. The benchmark is ICE BofAML Euro Non-Sovereign Index.
Source: MSCI ESG Data, ICE
Based on holdings as of 31 March 2021

This weighted average CO_2 intensity provides an indication of the portfolio's exposure to CO_2 –emission-intensive companies. As indicated, the carbon intensity of the Berenberg Sustainable Euro Bonds stands at 176.1t/USDm in revenues and is thereby substantially higher than the carbon intensity of the fund's benchmark.

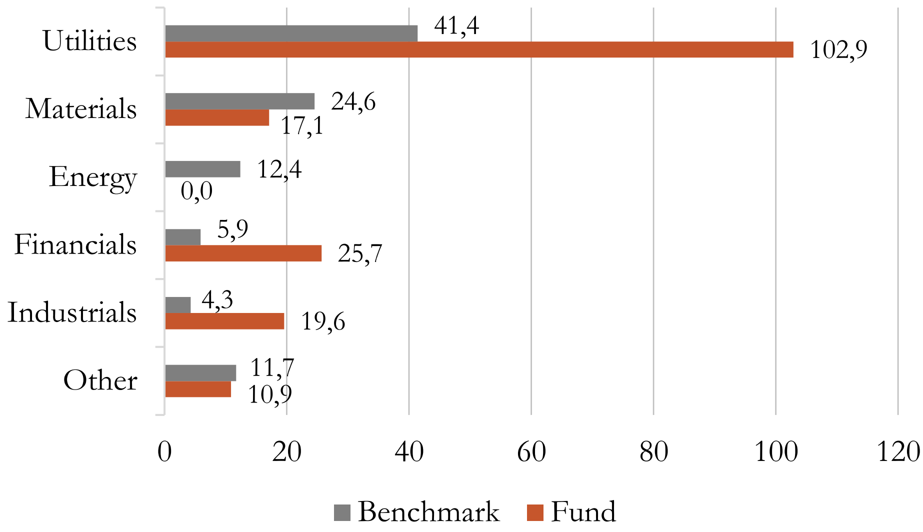
This fact is explained by the general impact approach of the fund: our impact approach focuses, among others, on investments in transition stories and green bonds that provide a positive impact and enable the transition to a more sustainable economy and society by addressing one of our four global challenges.

Particularly, green and sustainability bonds are often issued by companies that we would describe as transition stories or as issuers that play a vital role in the transition to a low-carbon economy. This may, for example, include companies from the utility sector that currently begin their transition (or are already in the process) towards a more sustainable business model by refocusing from oil, coal or gas to renewable energies. Another (even though less pronounced) example are real estate companies: the real estate sector is responsible for a material share of global CO_2 emissions and real estate companies can substantially contribute to a low-carbon economy by investing in green buildings and energy efficiency improvement of existing buildings. All these companies face substantial investment requirements to transition successfully, and green and sustainability bonds can play a material role to facilitate this. To have a positive impact on the environment and society, the fund invests in these green and sustainability bonds that enable a transition as well as in companies that follow an ambitious sustainability and climate strategy and positively contribute to the environment through innovative and sustainable products and services. Investing in green and sustainability bonds as well as transition stories in general, however, results in a specific sector exposure within the portfolio. These sectors and bond issuers typically have a high carbon intensity and thus, to some extent, a negative environmental impact, which is why the financing of a quick and smooth transition is essential. Among the sectors with the highest carbon intensity in the fund as well as in the benchmark are, for example, utilities or real estate companies.[32]

Looking at the contribution of different industry sectors (BICS classification) to the total carbon intensity of the fund, the utility sector makes up the majority contribution of the total CO_2 intensity: with a contribution of 102.9t/USDm revenue, utility companies account for c58% of total carbon intensity in the portfolio. Hence, the total and relative contribution of utilities is substantial higher than in the fund's benchmark. The reason for the higher CO_2 intensity contribution is the materially higher weight of the utility sector within the Berenberg Sustainable Euro Bonds fund versus the benchmark (18% versus 6%). As mentioned above, the fund actively focuses on transition stories that often take place in the utilities sector and green bonds, for which utilities are a large issuer group. Taking a closer look, the utility companies invested in the fund actually have a 20% lower average CO_2 intensity than companies in the benchmark. Consequently, the high utility sector weight is the primary factor for the fund's higher carbon intensity.

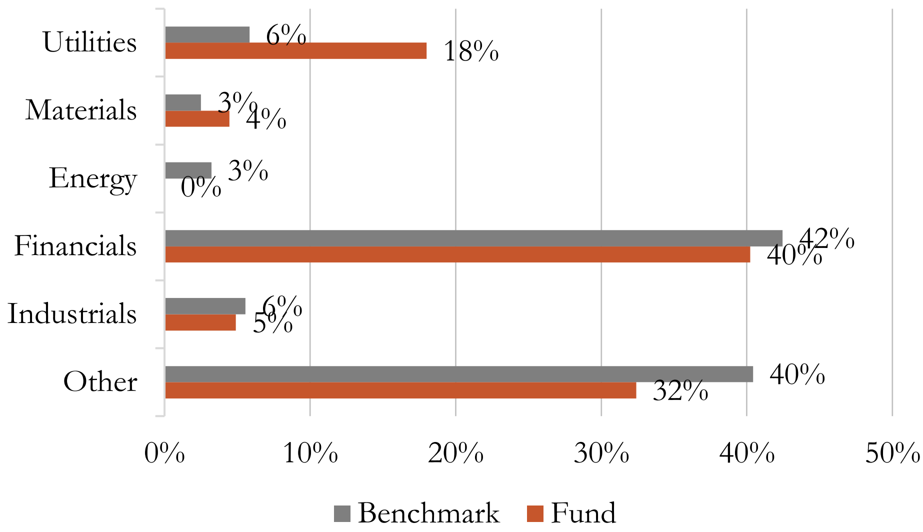
[32] Real estate companies are classified as "financials", according to the BICS classification that is used for the analysis and following charts

Carbon Intensity – Contribution by BICS Sector



The CO_2 intensity (Scope 1 and 2 emissions in tonnes per USD mn. of revenue) is aggregated by sector (BICS sector classification is used) for the fund and benchmark, using the carbon intensity of each relevant holding and its scaled portfolio weight per holding (current value of the investment relative to the current portfolio value excluding sovereign issuers and issuers for which no comparable data is available).
The benchmark is ICE BofAML Euro Non-Sovereign Index.
Source: MSCI ESG Data, ICE
Based on holdings as of 31 March 2021

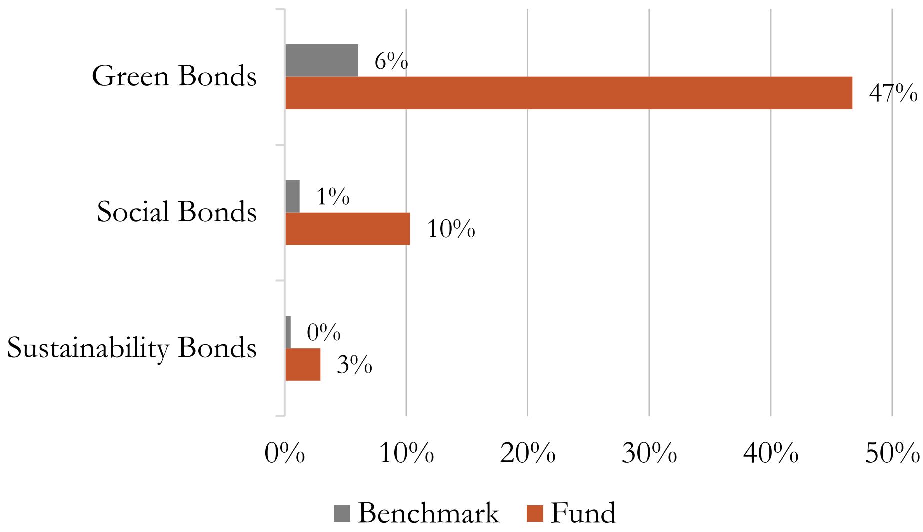
BICS Sector Weights – Fund vs. Benchmark



The scaled portfolio weights of relevant holdings (current value of the investment relative to the current portfolio value excluding sovereign issuers and issuers for which no comparable data is available) are aggregated by sector (BICS sector classification is used) for the fund and benchmark.
Source: ICE
Based on holdings as of 31 March 2021

An additional aspect that should be considered is the focus on green, social and sustainability bonds and their direct impact that is generated by financing environmentally or socially beneficial projects and assets. As indicated below, c60% of the fund's relevant holdings[33] are invested in green, social or sustainability bonds, while these account for only 7% of the relevant benchmark holdings.

Share of Green, Social and Sustainability Bonds[34]



The scaled portfolio weights of relevant holdings (current value of the investment relative to the current portfolio value excludes sovereign issuers and issuers for which no comparable data is available) are aggregated by the bond category Green Bond, Social Bond or Sustainability Bond. Weights do not necessarily sum up to 100%. BICS sector classification is used for the fund and benchmark.
Source: ICE, Bloomberg
Based on holdings as of 31 March 2021

The following two examples from the utility and real estate sector explain why we should take the direct positive impact from green bonds into account and not exclusively focus on the carbon intensity of the underlying bond company.

- **Utilities:** Italian utility company ERG focuses on renewable energy generation. However, in order to stabilise the Italian electricity network, ERG additionally operates one natural gas plant, which leads to a high carbon footprint for the company despite the clear focus on clean energy and despite the fact that the majority of power is generated from wind parks. ERG's business expansion strategy is exclusively focused on increasing its renewable energy capacity – one of the reasons why the company issued a

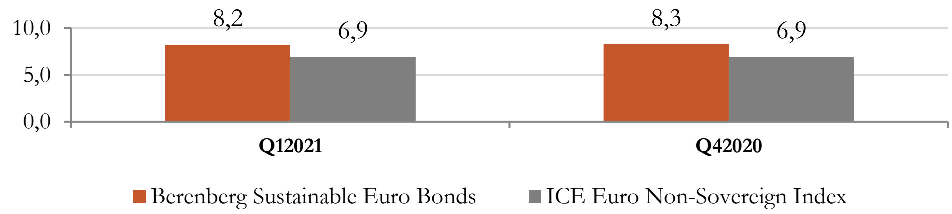
[33] All holdings that are relevant for the calculation of the carbon intensity (i.e. excluding sovereign (-related) issuers)
[34] Please note that the share of green, social and sustainability bonds is only based on portfolio holdings that are relevant for the carbon intensity calculation (for example, excluding sovereign bonds) and consequently does not necessarily match with the share of green, social and sustainability bonds for the total fund, as presented on p.19

green bond in 2020 that financed 476MW of additional renewable energy capacity, leading to estimated CO_2 savings of 261,000 tons in 2020.[35]

❖ **Real estate:** Equinix is a digital infrastructure company that owns and operates data centres and provides related services to clients. Given the inherently high energy usage and intensity of data centres, the company has a substantial carbon footprint. To achieve its ambitious climate strategy and sustainability targets, Equinix issues green bonds, whose proceeds are directly used to improve the energy efficiency in its existing data centres, which will help to further reduce the company's carbon footprint. Additionally, the bond proceeds can be used for the installation of renewable energy generation systems such as solar panels that will reduce the CO_2 intensity of the company's energy usage.

ESG Score

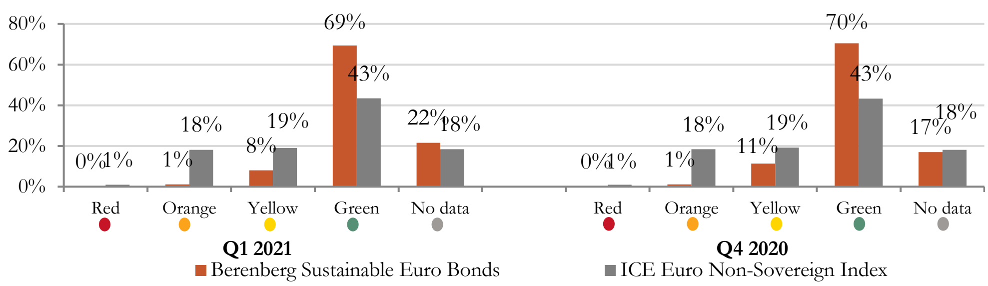
Using a score between 0 (lowest score) and 10 (highest score), MSCI ESG assesses the ability of portfolio holdings to identify and manage environmental, social and governance-related risks compared to peers.



Source: MSCI ESG, own calculations and presentation. Certain information © 2021 MSCI ESG Research LLc. Reproduced by permission. Portfolio as of 31 March 2021 and 31 December 2020. MSCI Data as of 31 July 2021.

ESG Controversies Screen

Investments in the fund are monitored for ESG controversies and, with the help of MSCI ESG data, flagged according to their severity.



Source: MSCI ESG, own calculations and presentation. Certain information © 2021 MSCI ESG Research LLc. Reproduced by permission. Portfolio as of 31 March 2021 and 31 December 2020. MSCI Data as of 31 July 2021.

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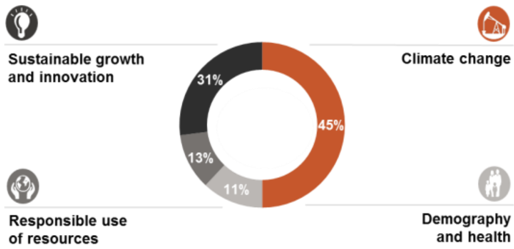
[35] Based on ERG's 2020 green bond report: https://www.erg.eu/en/investor-relations/debt/emtn-programme/green-bond-2020

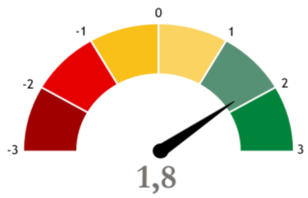
Historical Data[36]

The Four Global Challenges
(for comparison: Q1 2021 on page 2)



Q4 2020

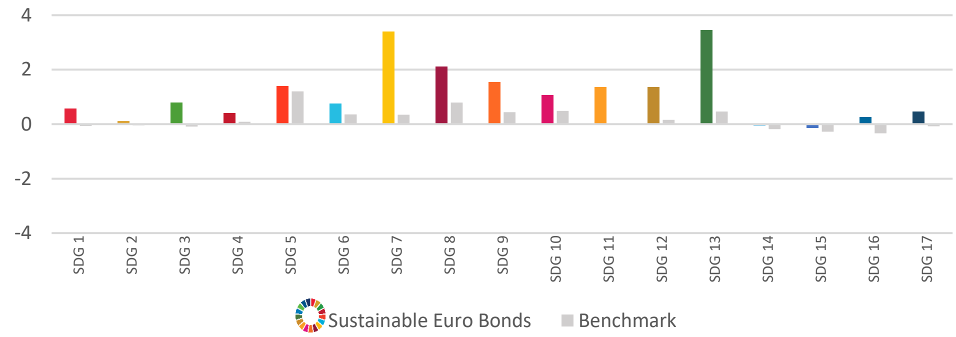
Berenberg Net Impact Score
(Q1 2021 on page 2)



Q4 2020

Source: own calculations and presentation. Portfolio as of 31 December 2020.

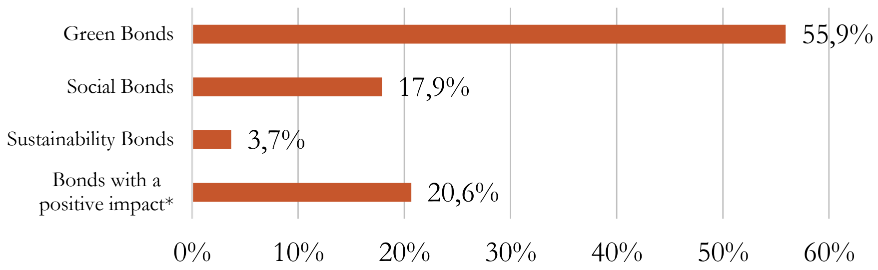
SDG Net Alignment Score – MSCI ESG *(Q1 2020 on page 21)*



Q4 2020

Source: MSCI ESG, own calculations and presentation. Certain information © 2021 MSCI ESG Research LLc. Reproduced by permission. Benchmark: ICE BofAML Euro Non-Sovereign Index. Portfolio as of 31 December 2020. MSCI Data as of 31 July 2021.

Share of Green, Social and Sustainability Bonds in the Portfolio
(Q1 2021 on page 22)



*Bonds from issuers that have a positive impact on the environment and society through their business model and offered products and services

Q4 2020

Source: Bloomberg. Portfolio as of 31 December 2020

[36] In order to track the development of the impact indicators over time, we show historical data. Due to the fact that the fund was launched in October 2020, Q4 2020 data is the oldest data available. In the future, the annual comparison will be shown.

Outlook

We will keep developing the Berenberg Net Impact Model, taking into account the evolving landscape of impact-related data providers and numerous impact measurement initiatives. We aim to constantly review our methodology to improve our scoring framework, to increase its objectivity and clarity and to align it with best-practice standards.

We also closely watch market, regulatory and academic developments in the impact measurement space. For example, we are excited to see how the EU taxonomy for sustainable activities will influence impact measurement practice and will dynamically react to upcoming best-practice standards.

Appendix – Methodology

Below, we detail our methodology to calculate mentioned parameters.

Chapter "Spotlights"

Four Global Challenges

The proportion of each key structural theme in the fund is calculated via the total percentage-weighted portfolio share of the companies that primarily address each key challenge.

The ABC Model

Depending on the relevant business activity, each of the fund's holdings is classified to one of the three categories "Act to avoid harm" (A), "Benefit stakeholders" (B) or "Contribute to solutions" (C). We calculate the percentage-weighted portfolio share of the companies within each category.

The Sustainable Development Goals

In a first step, we set a framework in which we assigned 10 investible SDGs to our four core global challenges. In a second step, depending on the relevant business activity, each of the fund's holdings is mapped to the SDGs of the respective specific global challenge that the holding addresses. Based on its primary contribution, each investment is assigned 1-3 goals. Portfolio weights are shown along with the respective SDGs – in the case of investments that contribute to several SDGs, the portfolio weight is allocated proportionately.

Chapter "Additional ESG and Impact related Information"

Share of Green, Social and Responsibility Bonds

Each portfolio holding is classified as a green bond, social bond, sustainability bond or 'regular' bond without any use-of-proceeds features, based on publicly available information (e.g. Bloomberg, issuer documents or Second Party Opinions). Individual bond weights are then aggregated on a portfolio level.

CO_2-Intensity

The CO_2 intensity per company (Scopes 1 and 2) is multiplied by the portfolio weight of the company (current value of the investment divided by current fund value) and summed up. This weighted average CO_2 intensity provides an indication of the portfolio's exposure to CO_2 emission-intensive companies.

The calculation of emissions data is based on indicators recommended by the G20's Task Force on Climate-related Financial Disclosures (TCFD).

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