



BERENBERG CORPORATE, WEALTH AND ASSET MANAGEMENT

# ESG EXCLUSION POLICY

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# Introduction

We believe that it is important to integrate Environmental, Social and Governance (ESG) aspects into the investment process. A basic instrument of ESG integration is the exclusion of certain investments based on our sustainability and risk assessments. We continuously develop the resulting exclusion criteria considering market standards, client demand, and regulatory requirements. Based on the criteria described in further detail below, we exclude investments in specific products, sectors, countries, and business activities.

## ESG exclusion approach

### Scope and implementation

Our ESG exclusion approach, is applied to wealth and asset management funds and mandates<sup>1</sup> on the level of:

- single investments (equities, corporate bonds, sovereign bonds, derivatives), and
- investments in active third-party funds and Exchanged-Traded Funds (ETFs).

Our wealth and asset management funds and mandates can be categorized into three distinct internal ESG categories<sup>2</sup>, for which specific sets of pre-defined ESG exclusion criteria are applied:

- Funds and mandates in the category *ESG screened* apply our general exclusion criteria.
- Fund and mandates in the category *ESG integrated* apply our general exclusion criteria<sup>3</sup>.
- Funds and mandates in the category *ESG targeted & Impact focused* apply our extended exclusion criteria<sup>4</sup>.

We regularly review our specific exclusion criteria and reserve the right to adjust them over time. Any such adjustments will be reflected in an updated version of our 'Berenberg Corporate, Wealth & Asset Management ESG Exclusion Policy' and communicated to affected clients.

Beyond our own ESG exclusion approach, we can implement for our clients specific exclusion criteria based on individual ESG restrictions within special mandates and special funds. Our ESG experts support our clients by advising on the definition and implementation of individual ESG exclusion criteria within their dedicated mandates or funds.

Both our own and our clients' specific ESG exclusion criteria are implemented through automated data feeds into our internal systems via our third-party data ESG provider.

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<sup>1</sup> Except for systematic solutions in Multi Asset as well as for special mandates or funds in case of specific client preferences.

<sup>2</sup> For further information on our internal ESG categories please refer to our ESG Policy and our website <https://www.berenberg.de/en/services-and-areas/asset-management/esg-approach/>. For the internal ESG categories of our mutual funds please refer to our website at <https://www.berenberg.de/en/services-and-areas/asset-management/esg-investments/>.

<sup>3</sup> Due to the specific investment strategy or client-specific preferences, special mandates or special funds categorized as *ESG screened* or *ESG integrated* may also apply extended exclusion criteria.

<sup>4</sup> Except for Berenberg Euro IG Credit, which applies our general exclusion criteria.

## Exclusion criteria for equities and corporate bonds<sup>5</sup>

We consider the following exclusion criteria when investing in equities and corporate bonds:

Table 1: Exclusion criteria for equities and corporate bonds<sup>6</sup>

Our exclusion criteria	Parameter	
	General exclusion criteria <i>ESG screened funds &amp; mandates</i>	Extended exclusion criteria <i>ESG targeted &amp; Impact focused funds &amp; mandates<sup>7</sup></i>
<b>Weapons</b>		
Controversial weapons	Fully excluded	Fully excluded
Conventional weapons		>5% share of revenues
Weapons for civil use		Fully excluded
<b>Energy</b>		
Nuclear power incl. uranium mining		>5% share of revenues
Thermal coal mining	>30% share of revenues	>5% share of revenues
Thermal coal power generation	>30% share of revenues	>5% share of revenues
Unconventional oil & gas		Fully excluded
<b>Addiction</b>		
Tobacco products	>5% share of revenues	Fully excluded
Adult entertainment		>5% share of revenues
Alcoholic beverages		>5% share of revenues
Gambling		>5% share of revenues
<b>Norms</b>		
UN Global Compact Principles	Violation	Violation
OECD Guidelines for Multinational Enterprises	Violation	Violation
ILO Fundamental Conventions and Declaration	Violation	Violation
UN Principles for Business and Human Rights	Violation	Violation
ESG controversies	In case of <b>red flag</b>	In case of <b>red flag</b>

<sup>5</sup> On the level of single investments.

<sup>6</sup> For funds in application for or awarded with an external ESG label or subject to specific local regulatory requirements, additional exclusion criteria may apply in line with the respective label's and/or regulatory framework's requirements applicable at the time.

<sup>7</sup> Extended exclusion criteria are applied to funds and mandates with dedicated ESG or positive impact focus (*ESG targeted and Impact focused*), to, among others, support positive impact. In specific cases, the set of extended exclusion criteria may also be applied to mandates or special funds categorized as *ESG screened* or *ESG integrated*, either due to the specific investment strategy or client-specific preferences.



## Weapons

We fully exclude in all funds and mandates **producers of controversial weapons** as well as suppliers of critical components (i.e., without revenue threshold). Furthermore, in *ESG targeted & Impact focused* funds and mandates we exclude companies that derive more than 5% of their revenues from the **production of conventional weapons, weapons systems and weapons components**. Additionally, in *ESG targeted & Impact focused* funds and mandates we fully exclude companies that produce and/or distribute **weapons for civil use**.

## Energy

We exclude in all funds and mandates companies that generate more than 30% of their revenues from the **mining of thermal coal** or from **thermal coal power generation**. In *ESG targeted & Impact focused* funds and mandates we apply a revenue threshold of 5% for both business activities. Furthermore, In *ESG targeted & Impact focused* funds and mandates we exclude companies which derive revenues from the **extraction of unconventional oil & gas** (e.g., oil sands) and companies which derive more than 5% of their revenues from **nuclear power** activities (incl. uranium mining).

## Tobacco

We exclude in all funds and mandates companies that derive more than 5% of their revenues from manufacturing **tobacco products** such as cigarettes, cigars and chewing tobacco. We fully exclude such companies in *ESG targeted & Impact focused* funds and mandates.

## Alcohol, adult entertainment and gambling

We exclude in *ESG targeted & Impact focused* funds and mandates all companies that derive more than 5% of their revenues from **adult entertainment, gambling** or the **production and/or distribution of alcoholic beverages**.

## Controversial behaviour

To respond to, among other things, potential violations of human rights, labour and environmental concerns or corruption, we exclude in all funds and mandates companies that violate the **United Nations Global Compact Principles** as well as companies that exhibit a red ESG controversy flag as marked by MSCI ESG Research and are thus **directly involved in ongoing very severe ESG controversies**. Within its ESG controversy analysis, MSCI ESG Research reviews companies' adherence to international standards such as the OECD Guidelines for Multinational Enterprises, the International Labour Organization's (ILO) Fundamental Conventions and Declaration on Fundamental Principles and Rights at Work and the United Nations Guiding Principles on Business and Human Rights and flags them in case of violations.



## Exclusion criteria for sovereign bonds

We consider the following ESG exclusion criteria when investing in sovereign bonds:

Table 2: Exclusion criteria for sovereign bonds<sup>8</sup>

Our exclusion criteria	Parameter	
	General exclusion criteria <i>ESG screened funds &amp; mandates</i>	Extended exclusion criteria <i>ESG targeted &amp; Impact focused funds &amp; mandates<sup>9</sup></i>
<b>Freedom</b>		
General freedom	Not free <i>according to Freedom House Index<sup>10</sup></i>	Not free <i>according to Freedom House Index</i>
Religious freedom		Particular concern <i>according to US Commission on International Religious Freedom</i>
<b>Environment</b>		
UN Biodiversity Convention		Not ratified
Paris Climate Agreement		Not ratified
Basel Convention		Not ratified
<b>Politics</b>		
Ownership of nuclear weapons		Yes
Nuclear energy		>33% <i>of electricity production</i>
Legality of death penalty		Yes
Corruption		High <i>according to Transparency International</i>
Political stability & peace		Weak <i>based on World Bank Worldwide Governance Indicators</i>
<b>General</b>		
MSCI Government ESG Rating	CCC	CCC

<sup>8</sup> For funds in application for or awarded with an external ESG label or subject to specific local regulatory requirements, additional exclusion criteria may apply in line with the respective label's and/or regulatory framework's requirements applicable at the time.

<sup>9</sup> Extended exclusion criteria are applied to funds and mandates with dedicated ESG or positive impact focus (*ESG targeted and Impact focused*), to, among others, support positive impact. In specific cases, the set of extended exclusion criteria may also be applied to mandates or special funds categorized as *ESG screened* or *ESG integrated*, either due to the specific investment strategy or client-specific preferences.

<sup>10</sup> Exclusion criterion "Not free" according to Freedom House Index is not applied to special funds with emerging markets focus.



## Freedom

In all funds<sup>11</sup> and mandates, we exclude countries that exhibit severe violations **of civil liberties and political rights**<sup>12</sup>. In ESG targeted & Impact focused funds and mandates, we further exclude countries that exhibit severe violations of **religious freedom**<sup>13</sup>.

## Environment

In *ESG targeted & Impact focused* funds and mandates, we exclude countries that have not ratified or are in violation of one or more international climate and environmental agreements such as the **Paris Climate Agreement**, the **UN Biodiversity Convention**, or the **Basel Convention**. Additionally, we do not invest in countries that generate more than 33% of their **electricity from nuclear energy**.

## Political situation

In ESG targeted & Impact focused funds and mandates, we exclude countries that lack **political stability and peace**<sup>14</sup>, exhibit high levels of **corruption**<sup>15</sup>, practice the death penalty, or possess **nuclear weapons**.

## General

In all funds and mandates, we exclude countries that have a **Government ESG Rating by MSCI ESG Research of CCC**<sup>16</sup> and thus present high risks in terms of socioeconomic and political factors as well as their use of resources.

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<sup>11</sup> Not applied to special funds with emerging markets focus.

<sup>12</sup> "Not free" based on analysis and benchmarks from Freedom House, provided by our ESG data provider.

<sup>13</sup> "Tier 1 Country of Particular Concern" based on analysis and benchmarks from the US Commission on International Religious Freedom, provided by our ESG data provider.

<sup>14</sup> "Weak management" based on analysis and benchmarks from the World Bank Worldwide Governance Indicators, provided by our ESG data provider.

<sup>15</sup> According to "Corruption Perception Index" based on analysis and benchmarks from Transparency International, provided by our ESG data provider.

<sup>16</sup> Seven-level scale from AAA to CCC.

### Exclusion criteria for commodities

We consider the following ESG exclusion criteria when investing in financial securities with commodities as an underlying:

Table 3: Exclusion criteria for commodities

Our exclusion criteria	Parameter	
	General exclusion criteria <i>ESG screened funds &amp; mandates</i>	Extended exclusion criteria <i>ESG targeted &amp; Impact focused funds &amp; mandates<sup>17</sup></i>
<b>Commodities</b>		
Staple foods <sup>18</sup>	Fully excluded	Fully excluded
Energy commodities <sup>19</sup>		Fully excluded

We fully exclude in all funds and mandates financial securities with **soft commodities/staple foods** as an underlying. Furthermore, in *ESG targeted & Impact focused* funds and mandates we fully exclude financial securities with **energy commodities** as an underlying.

### Exclusion criteria for active third-party Funds and ETFs

We apply ESG exclusion criteria when investing in active third-party funds and ETFs. Exclusion criteria are applied in the asset manager selection (i.e., criteria the external asset manager must comply with) and in the product selection (i.e., criteria the external asset manager must bindingly apply to the product's portfolio):

#### Asset manager – Active third-party funds & ETFs

Table 4: Exclusion criteria for external asset manager

Our exclusion criteria	Parameter	
	Active third-party funds	ETFs
Principles for Responsible Investments (PRI)	Not signed	Not signed
UN Global Compact principles	Violation	Violation
ESG Controversies	In case of <b>red flag</b>	In case of <b>red flag</b>

In all funds and mandates we exclude third-party funds and ETFs by asset managers who are not signatories to the UN-supported **Principles for Responsible Investment (PRI)**, that violate the **UN Global Compact Principles** or that exhibit a red ESG controversy flag as marked by MSCI ESG Research and are directly involved in ongoing **very severe ESG controversies**.

#### External product portfolios – Active third-party funds & ETFs

Table 5: Minimum exclusion criteria in external product portfolios

Our exclusion criteria	Parameter	
	Active third-party funds	ETFs
Controversial weapons	Fully excluded	Fully excluded
Thermal coal mining		>5% share of revenues
Thermal coal power generation		>25% share of revenues
Tobacco production		>5% share of revenues
Oil sands or unconventional oil & gas extraction		>5% share of revenues
UN Global Compact principles	Violation	Violation

<sup>17</sup> Extended exclusion criteria are applied to funds and mandates with dedicated ESG or positive impact focus (*ESG targeted and Impact focused*), to, among others, support positive impact. In specific cases, the set of extended exclusion criteria may also be applied to mandates or special funds categorized as *ESG screened* or *ESG integrated*, either due to the specific investment strategy or client-specific preferences.

<sup>18</sup> Referring to staple foods as an underlying of financial securities (incl. forwards, futures, exchange-traded commodities (ETCs) and options).

<sup>19</sup> Referring to energy commodities as an underlying of financial securities (incl. forwards, futures, ETCs and options).



### Active third-party funds

To be eligible for investment in all funds and mandates, third-party funds need to fully exclude producers of controversial weapons as well as companies in violation of the UN Global Compact Principles from their portfolios<sup>20</sup>.

Furthermore, an ESG analysis of active third-party funds is carried out in an internal process based on a proprietary ESG questionnaire, which among others considers potential further exclusion criteria applied by the respective asset manager.

### ETFs

Within our funds and mandates, ETFs are primarily chosen for tactical exposure to specific asset classes or market segments. In ESG screened funds and mandates, ETFs with an underlying ESG index are chosen, where possible<sup>21</sup>. In ESG integrated as well as ESG targeted & Impact *focused* funds and mandates, only investments in ETFs with an underlying ESG index are permitted and further ESG analysis on these ETFs is conducted.

All ETFs with an underlying ESG index must apply the following minimum exclusion criteria on a portfolio level in a binding manner to be investible:

- Full exclusion of producers of **controversial weapons** as well as suppliers of critical components (i.e. without revenue threshold),
- exclusion of companies that derive more than 5% of their revenues from the **mining of thermal coal** or more than 25% of their revenues from **thermal coal power generation**,
- exclusion of companies that derive more than 5% of their revenues from manufacturing **tobacco products**, and
- exclusion of companies that derive more than 5% of their revenues either from oil sands extraction or from oil extraction from other unconventional oil & gas.
- exclusion of companies that violate the **UN Global Compact Principles**.

### Exclusion criteria for derivatives and certificates

For long positions in derivatives or certificates, relevant exclusion criteria are applied to the underlying.

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<sup>20</sup> If applicable to the product's investment strategy, i.e. in case of investments in equities or corporate bonds.

<sup>21</sup> I.e. if a suitable ETF with an underlying ESG index is available to achieve the envisioned tactical exposure.



## Process for defining our exclusion criteria

In our Corporate, Wealth & Asset Management the ESG Office, the portfolio management and the ESG Committee, the business unit's ESG governance body, are involved in the definition and update of our exclusion criteria.

The ESG Office discusses with the portfolio management if or when criteria need to be updated or changed. Together, the portfolio management and the ESG Office examine the rationale behind the exclusion of companies and countries, from a sustainability and risk perspective, examining ESG aspects, investment risk and benefits for clients. Changes to our exclusion criteria are approved by the ESG Committee.



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