



**BERENBERG**  
PARTNERSHIP SINCE 1590

BERENBERG WEALTH AND ASSET MANAGEMENT

# ESG Exclusion Policy

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February 2022  
Version 3.0





## Content

<b>Introduction .....</b>	<b>2</b>
<b>ESG Exclusion Approach.....</b>	<b>2</b>
<i>Scope and Implementation .....</i>	<i>2</i>
<i>Exclusion Criteria for Commodities, Equities and Corporate Bonds .....</i>	<i>3</i>
<i>Exclusion Criteria for Sovereign Bonds .....</i>	<i>5</i>
<i>Exclusion Criteria for Active Third-party Funds and ETFs.....</i>	<i>7</i>
<i>Exclusion Criteria for Derivatives and Certificates.....</i>	<i>8</i>
<b>Definition of our exclusion criteria .....</b>	<b>9</b>



## Introduction

At Berenberg Wealth and Asset Management (WAM), we believe that it is important to integrate Environmental, Social and Governance (ESG) issues into the investment process. This includes, as a basic instrument, the exclusion of certain investments based on our ethical and moral beliefs as well as risk assessments. We have continuously developed our exclusion criteria at Berenberg WAM over the last years while considering developments and standards in the market. Within our exclusion approach, we avoid investments in specific products, sectors, and countries as well as business activities, which we describe in further detail in the next section.

Some of our clients define their own exclusion criteria based on their individual ethical and moral beliefs. Therefore, we also offer to manage special mandates and funds from clients that request specific types of ESG restrictions.

## ESG Exclusion Approach

### Scope and Implementation

Our ESG exclusion approach, as described within this document, is applied to all funds and mandates<sup>1</sup> in Berenberg WAM on the level of:

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

In Berenberg WAM, our funds and mandates can be categorized into three distinct internal ESG categories<sup>2</sup>, within which specific sets of pre-defined ESG exclusion criteria are applied:

- Funds and mandates in the categories *ESG screened* and *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.

Beyond our own ESG exclusion approach, we can provide clients with specific exclusion filters following their individual requests on various screening criteria. This is a starting point and clients can define individual exclusion criteria/parameters. Our experienced ESG professionals can support our clients by providing them with advice on how to define and implement individual ESG exclusion criteria in their dedicated special mandates or funds.

Our own as well as our client's specific ESG exclusion criteria are implemented through automated data feeds into our internal systems via our third-party data ESG provider.

<sup>1</sup> Except for systematic solutions in the area of 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 Berenberg WAM ESG Policy and our website [www.berenberg.de/en/esg](http://www.berenberg.de/en/esg).

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



## Exclusion Criteria for Commodities, Equities and Corporate Bonds<sup>4</sup>

In Berenberg WAM, we consider ESG exclusion criteria when investing in commodities, equities and corporate bonds based on the following aspects:

**Table 1: Exclusion Criteria for Commodities, Equities and Corporate Bonds<sup>5</sup>**

Our exclusion criteria	Parameter	
	General exclusion criteria All funds & mandates	Extended exclusion criteria <i>ESG targeted &amp; Impact focused</i> funds & mandates <sup>6</sup>
<b>Commodities</b>		
Soft commodities <sup>7</sup>	Fully excluded	Fully excluded
Energy commodities <sup>8</sup>		Fully excluded
<b>Weapons</b>		
Controversial weapons	Fully excluded	Fully excluded
Weapons / Defence	>5% share of revenues	>5% share of revenues
Weapons for retail		Fully excluded
<b>Energy</b>		
Nuclear power incl. uranium mining	>5% share of revenues	>5% share of revenues
Thermal coal mining	>5% share of revenues	>5% share of revenues
Thermal coal power generation	>25% share of revenues	>5% share of revenues
Unconventional oil & gas	>5% share of revenues	Fully excluded
<b>Addiction</b>		
Tobacco production	>5% share of revenues	Fully excluded
Pornography		>5% share of revenues
Alcohol production		>5% share of revenues
Gambling		>5% share of revenues
<b>Norms</b>		
UN Global Compact Principles	Violation	Violation
International Labor Organization Standards	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>4</sup> On the level of single investments.

<sup>5</sup> For funds in application for or awarded with an external ESG label, additional exclusion criteria may apply in line with the respective label's requirements applicable at the time.

<sup>6</sup> Extended exclusion criteria are applied to respective funds and mandates with dedicated ESG or positive impact focus (*ESG targeted & Impact focused*), to, among others, support positive impact. In specific cases, 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 setup or due to client-specific preferences.

<sup>7</sup> Referring to staple foods as an underlying of financial securities (incl. forwards, futures, exchange-traded commodities (ETCs) and options).

<sup>8</sup> Referring to energy commodities as an underlying of financial securities (incl. forwards, futures, ETCs and options).



### Commodities

We fully exclude in all funds and mandates financial securities with **soft commodities/staple foods** as an underlying as we want to prevent any involvement in speculation on staple food prices. Furthermore, in *ESG targeted & Impact focused* funds and mandates we fully exclude financial securities with **energy commodities** as an underlying.

### Arms and 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, we exclude companies that derive more than 5% of their revenues from the **production of conventional weapons and weapons systems**. In *ESG targeted & Impact focused* funds and mandates we fully exclude companies that produce **weapons for retail purposes** i.e. for civilians.

### Energy

In the light of progressing climate change and to achieve the goals of the Paris Climate Agreement, a far-reaching energy transition towards low-emission energy sources and uses is needed. As part of this necessary transition, we exclude companies that generate more than 5% of their revenues from the **mining of thermal coal** or more than 25% (for all funds and mandates) and 5% (for *ESG targeted & Impact focused* funds and mandates) of their revenues from **thermal coal power generation**. Due to the particularly detrimental impact on the environment of so-called **unconventional oil & gas** (e.g. oil sand extraction), we exclude companies with more than 5% of their revenue derived from these sources. In *ESG targeted & Impact focused* funds and mandates we fully exclude these companies.

Nuclear energy represents a low-carbon energy source, however, it is widely viewed as critical from a societal and political perspective due to concerns about reactor safety and the disposal of remaining residues. Considering this, we exclude companies which derive more than 5% of their revenues from **nuclear power** activities (incl. uranium mining).

### Tobacco, Alcohol, Adult Entertainment and Gambling

Tobacco has significant long-term individual and public health implications, particularly because of its addictive potential and the externalities it creates. Therefore, 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 tobacco producers in *ESG targeted & Impact focused* funds and mandates. In addition, we exclude in *ESG targeted & Impact focused* funds and mandates all companies that derive more than 5% of their revenues from **alcohol production, adult entertainment or gambling**.

### Controversial Behaviour

To respond to or to prevent, among other things, 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 linked to **very severe ESG controversies**. Within its ESG controversy analysis, MSCI ESG Research reviews companies'



adherence to international standards such as the Conventions of the International Labour Organization and the United Nations Guiding Principles on Business and Human Rights and flags them in case of violations.

## Exclusion Criteria for Sovereign Bonds

In Berenberg WAM, we consider ESG exclusion criteria when investing in sovereign bonds based on the following aspects:

**Table 2: Exclusion Criteria for Sovereign Debt<sup>9</sup>**

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

<sup>9</sup> For funds in application for or awarded with an external ESG label, additional exclusion criteria may apply in line with the respective label's requirements applicable at the time.

<sup>10</sup> Extended exclusion criteria are applied to respective 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 setup or due to client-specific preferences.



### Freedom

In *ESG targeted & Impact focused* funds and mandates, we exclude countries that exhibit severe violations of **civil liberties and political rights**<sup>11</sup> or of **religious freedom**<sup>12</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 **Kyoto Protocol**, 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>13</sup>, exhibit high levels of **corruption**<sup>14</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>15</sup> and thus present high risks in terms of socioeconomic and political factors as well as their use of resources.

<sup>11</sup> “Not free” based on analysis and benchmarks from Freedom House, provided by our ESG data provider.

<sup>12</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>13</sup> “Weak management” based on analysis and benchmarks from the World Bank Worldwide Governance Indicators, provided by our ESG data provider.

<sup>14</sup> According to “Corruption Perception Index” based on analysis and benchmarks from Transparency International, provided by our ESG data provider.

<sup>15</sup> Seven-level scale from AAA to CCC



## Exclusion Criteria for Active Third-party Funds and ETFs

In Berenberg WAM, 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, so that the product is investible):

### Asset Manager - Active Third-party Funds & ETFs

Table 3: Exclusion Criteria for External Asset Managers

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 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 thus linked to **very severe ESG controversies**.

### External Product Portfolios

Table 4: Minimum Exclusion Criteria in External Product Portfolios

	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 revenue
Tobacco production		>5% share of revenues
UN Global Compact principles	Violation	Violation

### 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>16</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.

<sup>16</sup> If applicable to the product's investment strategy, i.e. in case of investments in equities or corporate bonds.



## 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>17</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 violate the **UN Global Compact Principles**.

## Exclusion Criteria for Derivatives and Certificates

In Berenberg WAM, we apply ESG exclusion criteria when investing in derivatives and certificates on the level of the counterparty/issuer as well as on the level of the underlying.

- In all funds and mandates we exclude over-the-counter (OTC) derivatives and certificates of counterparties/issuers, that violate the **UN Global Compact Principles** or that exhibit a red ESG controversy flag as marked by MSCI ESG Research and are thus linked to **very severe ESG controversies**. Exclusion criteria on the counterparty/issuer-level are not applied for exchange-traded derivatives.
- For short positions no exclusion criteria are applied to the underlying.
- For long positions in derivatives or certificates on individual securities, the exclusion criteria for single investments per ESG category are applied to the underlying.
- For long positions in index derivatives and certificates the approach to ETFs applies.

<sup>17</sup> I.e. if a suitable ETF with an underlying ESG index is available to achieve the envisioned tactical exposure.



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## Definition of our exclusion criteria

At Berenberg WAM, we have a dedicated process of defining and updating our exclusion criteria. This process involves the Berenberg WAM ESG Office, portfolio management and ESG Committee. The ESG Committee forms the Berenberg WAM ESG governance body, meets at least quarterly, and is composed of WAM members and executives.

The ESG Office discusses with the portfolio management if or when a criteria/parameter needs to be updated or changed. Together, the portfolio management and the ESG Office examine the rationale behind the exclusion of companies and countries, considering sustainable, ethical and moral reasons as well as examining ESG aspects such as investment risk and also the benefits for clients. The reviewed screen is then sent to the ESG Committee for a final approval before implementation.



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