BERENBERG

PRIVATBANKIERS SEIT 1590

BERENBERG WEALTH AND ASSET MANAGEMENT

Climate change and investments - our approach

June 2023

Our view

In Berenberg Wealth and Asset Management (WAM), we recognise our responsibility to make an effective contribution to combating climate change through our investment decisions as well as our collaboration with portfolio companies, clients and other investors.

Climate change, the achievement of the goals of the Paris Climate Agreement to limit global warming to below 2°C and preferably 1.5°C, and the necessary transition to a low-carbon economy, entail risks and opportunities. On the one hand, these include physical risks caused by natural disasters as well as increasing extreme weather events associated with climate change. On the other hand, they also include transition risks and opportunities, which relate in particular to the ability of companies to adapt their business model to the transition to a lower-carbon economy. In addition to direct impacts, climate change can jeopardise the achievement of the United Nations' Sustainable Development Goals (SDGs) by limiting access to food and energy, global and national security or the equitable distribution of resources.

Increased reporting by companies and investors on climate-related opportunities and risks can help to make better decisions considering climate-related aspects. In particular, the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures provide an established framework for comprehensive climate reporting and help to integrate climate-related aspects into business operations. Further political and regulatory developments in the EU and other jurisdictions, such as the EU's Taxonomy Regulation, its Sustainability Reporting Directive and its Due Diligence Directive, among others, aim to expand the reporting and due diligence obligations of companies regarding sustainability. This increased transparency will offer investors the opportunity to better assess the activities, strategies and goals of their portfolio companies. In addition, such transparency will help them integrate climate-related into their own reporting and investment processes.

Over the following pages, we describe the ways in which we already consider the risks and opportunities of climate change in our ESG investment approach. Specifically, we look at our exclusion criteria, ESG analysis, active ownership activities and positive impact approach. We also present the next steps we aim to take in this area.

Our approach

Sustainable growth and sustainable returns are our focus – and therefore the sustainability of business models and economic activities is of particular importance to us. Long-term growth is only possible if companies, organisations and states act with foresight and responsibility for social and ecological consequences.

Our governance

At Berenberg Wealth and Asset Management, the ESG Office and the ESG Committee are responsible for the development, implementation and monitoring of our ESG strategy – including our approach to climate change.

The ESG Office is responsible for our ESG strategy and integration and, to further develop and implement these, closely collaborates with all relevant teams in Wealth and Asset Management. The ESG Committee forms the ESG governance and oversight body within Wealth and Asset Management. The committee reviews the progress of our ESG activities and discusses their further development. Risks arising from climate change are identified by these two organisational units and, where deemed relevant, integrated into the ESG strategy.

At the bank level, a cross-divisional ESG working group is entrusted with monitoring regulatory developments and implementing regulatory adjustments. Our bank-wide Sustainability Board centrally manages our bank-wide sustainability developments in business operations.

> *"All companies face climate-related risks and opportunities. As investors, it is our job to identify these to the best of our abilities and work with portfolio companies to minimise the risks and leverage the opportunities."*
> Matthias Born – CIO Equities & Head of Investments, Berenberg WAM

Our exclusion criteria

Exclusion or negative criteria serve as gatekeepers for sustainably orientated portfolios: accordingly, investments in companies or countries are excluded if they do not meet or violate defined criteria. This is intended to achieve a minimum level of sustainability in portfolios and reduce exposure to business activities with significant negative impacts. At the same time, exclusion criteria must be designed carefully, as a divestment implies that investors can not support companies in the necessary transition.

Exclusion criteria are applied in our products and strategies in the categories ESG screened, ESG integrated, ESG targeted & Impact focused.

At the company level, these criteria typically relate to controversial business activities or business practices; at the state level, in the context of sovereign bonds, they may relate to assessments of a country's political and societal situation, it's support of and compliance with international frameworks, conventions and agreements, and others. At Berenberg Wealth and Asset Management, we apply exclusion criteria – including on climate-related aspects – across our product range.

- Fossil fuels-based energy production contributes a significant share to global greenhouse gas emissions. To reduce the resulting risks, we have defined the following exclusion criteria for these business activities:
  - due to the particularly high emission intensity, we exclude companies that exceed a defined share of turnover from thermal coal mining or from coal-fired power generation.
  - due to the particularly detrimental impact on the environment of so-called unconventional oil and gas extraction (e.g. oil sands, fracking), we exclude companies that exceed defined turnover thresholds in this area of fossil fuel extraction.

Our exclusion criteria	General exclusion criteria All funds and mandates	Extended exclusion criteria *ESG targeted & Impact focused* funds and mandates[1]
Thermal coal mining	**>5%** share of revenues	**>5%** share of revenues
Coal power generation	**>25%** share of revenues	**>5%** share of revenues
Unconventional oil & gas	**>5%** share of revenues	**Fully excluded**

- We also exclude companies that are directly involved in ongoing very severe ESG controversies. These include environmental controversies relating to biodiversity and land use, energy and climate change, and toxic emissions and waste, among others.
- As part of our extended exclusion criteria, we exclude sovereign bonds from countries that have not ratified – or which violate – one or more international climate or environmental agreements such as the Paris Climate Agreement, the Kyoto Protocol, the UN Convention on Biological Diversity or the Basel Convention. Furthermore, we exclude financial instruments that have energy commodities (e.g. crude oil, natural gas) as their underlying assets.

Please refer to our ESG Exclusion Policy at www.berenberg.de/en/esg-publications for further details.

Our ESG analysis

Our portfolio management uses internal and external research to conduct ESG analyses of investment positions. We focus on the material sustainability factors of a company, such as, for example, their size, location and industry. In addition, specific strategies analyse countries and respective sovereign bonds based on a variety of positive and negative ESG and sustainability indicators. To obtain an overall picture, information from all aspects of ESG – i.e. environmental, social and corporate governance – is analysed.

[1] 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, extended exclusion criteria may also be applied to mandates or special funds categorised as ESG screened or ESG integrated.

Climate-related risks and opportunities particularly relate to environmental aspects, such as greenhouse gas emissions, energy and resource efficiency or climate-relevant products and services. However, climate-related risks and opportunities need to be also analysed from a social and corporate governance perspective, for example in terms of the impact of climate-related issues on health and productivity or in how far the responsibility for the consideration of climate-related risks and opportunities is anchored at management level. Insufficient consideration of these aspects can have negative effects on business models and profitability in the medium and long term. We believe that our portfolio management team, which makes the final investment decision, is in the best position to assess the materiality of individual risks and opportunities. In addition, the open dialogue between our portfolio managers and our ESG Office allows us to identify new discussion points and to continuously develop our ESG approach.

ESG analysis is conducted for products and strategies in the categories ESG screened, ESG integrated, ESG targeted & Impact focused.

ESG analysis is incorporated into our fundamental investment analysis and can lead to a preferred selection of those investments that perform particularly well from a sustainability perspective – depending on the degree of ESG consideration within the respective product or strategy.

> *"Climate-related risks and opportunities need to be considered the same way as other ESG aspects: with foresight and differentiated approaches across asset classes."*
> Prof. Dr. Bernd Meyer, CFA – Head of Multi Asset and Chief Strategist, Berenberg Wealth and Asset Management

Our engagement and proxy voting

Investors can make an active contribution to the sustainable development of their portfolio investments, particularly through active ownership activities, i.e., active dialogue (engagement) with companies and issuers and the provision of voting recommendations (proxy voting). Where identified as material, we include climate-relevant risks and opportunities in our active ownership activities.

Engagement & Proxy Voting are part of our products and strategies in the categories ESG integrated, ESG targeted & Impact focused.

- We encourage companies to report transparently on climate-related impacts, among other issues. Controversies relating to energy and resource consumption, emissions and the like are also an opportunity for engagement with portfolio companies and issuers.
- We selectively use opportunities for collaborative engagement to influence and ultimately bring about positive change together with other investors.
- We communicate our opinion on corporate governance to companies via the provision of voting recommendations. The proposals on which we provide our recommendations may also relate to a company's climate strategy. We review climate-related shareholder proposals as well as management proposals as part of our proxy voting process and support them if we assess them as material and ambitious.

Our positive impact approach

For Impact focused strategies, we select investments with the intention of generating added value for the environment and society alongside a financial return.

Our approach to positive impact is applied in products and strategies in the category Impact focused.

- Investments are made in companies, issuers and project-related bonds (e.g., Green Bonds[2]) that make an active contribution to overcoming global challenges. We focus on four global challenges which are based on a selection of SDGs assessed as investable: "Demography & Health", "Climate Protection", "Sustainable Growth and Innovation" as well as "Responsible Use of Resources".
- Within our Berenberg Net Impact Model, we quantify in a comprehensible way the positive and potentially negative impact that our investments generate in relation to the four global challenges. The "Carbon Assessment" indicator quantifies and evaluates the climate-related metrics of issuers, and compares them with the benchmark. It excludes issuers with high emissions and no transition strategy. Issuers with low emissions or strong ambitions are assessed particularly positively.

> *"Some of our clients are already embarking on their own transition towards lowering emissions in their portfolios. We want to actively support them on that journey."*
> Klaus Naeve – Head of Sales, Berenberg Wealth and Asset Management

Our reporting and performance

Increased reporting is important to make better decisions that take climate-related aspects into account. Based on external data, we can provide not only general ESG information but also specific key figures to measure the climate-related performance of our products.

- We report the weighted average carbon intensity for a large part of our mutual funds, including in the monthly updated fund factsheets, as well as for certain asset management strategies on a quarterly basis. This indicator is relevant for the assessment of efficient management as well as for the extent of transition risks of companies.
- On request, we can provide our customers with further climate-related information on our products.
- When calculating climate-related indicators, we take into account the recommendations of the Task Force on Climate-related Financial Disclosures.

In particular due to our focus on companies with structural growth and sustainable earnings, in which we invest for the long term and on the basis of fundamental analysis, many of our portfolios already have a comparatively low exposure (e.g., compared to the respective benchmark) to emissions-intensive business areas. This is also reflected in corresponding climate and emissions metrics.

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[2] Bonds with proceeds earmarked by the issuer for the financing of climate protection or environmental projects.

Further information on the elements of our ESG approach outlined can be found in our publicly available guidelines and reports at www.berenberg.de/en/esg-publications.

The scope of the elements of our ESG approach differs between our products/strategies and is presented in more detail in our publicly available ESG Policy in the chapter "Our ESG investment strategies".

Environment and climate change at the bank level

With regards to Berenberg's environmental responsibilities, it is the bank's aim to keep reducing its ecological footprint. A variety of programmes and initiatives at bank level contribute to protecting the environment, including the company bike scheme, a reduction in business travel and company cars, the introduction of modern printer standards and energy-efficient facilities management. Already around 98% of the electricity used in the German locations is sourced from renewable sources, for instance. By continuing to digitise operations, the company is further reducing its paper consumption. By financing green infrastructure and renewable energy projects, the bank is supporting the promotion of sustainable technologies and the expansion of renewable energies.

Further information can be found in the annual Berenberg Sustainability Report as well as on the Berenberg website https://www.berenberg.de/en/news/esg/sustainability-at-berenberg/.

Our next steps

We are continuously developing our ESG principles and strategy and are constantly working to offer our clients investment strategies and portfolios that are both, in line with their individual preferences and sustainable over the long term. In particular, the consideration of climate-related risks and opportunities in the investment process is continuously evolving - in terms of available data, methods, reporting and target setting by companies, countries and other actors, as well as regulatory requirements. Therefore, we are also aiming to expand and further define our climate-related strategy.

- We are reviewing fossil fuel investment with regard to relevant climate and energy scenarios to support the necessary transition to a low-carbon economy.
- We will provide our portfolio managers with further relevant data, methods and frameworks to support the consideration of climate-related opportunities and risks in investment decisions. We will do this at both asset and portfolio level, covering backward- and forward-looking data and analyses.
- We continue to expand our climate-related engagement with portfolio companies. In doing so, we seek to address the individual circumstances and progress of the companies in terms of their reporting, target setting or target achievement. Where relevant, we also seek to leverage opportunities for collaborative engagement through sector and investor initiatives.
- We continue to develop our climate-related reporting – at portfolio and business unit level and in line with regulatory requirements, established frameworks and client demand.
- We work with our clients to actively support them in realising their own climate/net-zero ambitions.
- Starting with specific products, we will set ourselves climate-related goals and expand them in the future.
- We will join relevant investor initiatives and organisations to support and underpin our approach and learn from a network of peers.

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