

ESG in equities - active stock picking and a convincing ESG approach

Massive economic, social, and environmental challenges, such as finite resources, increasing inequality, and ongoing climate change, contribute to increased pressure on asset managers – as more clients expect us to integrate sustainability considerations into our investment processes. Likewise, we are convinced of the importance of considering sustainability. In this issue of **Insights**, we highlight how we conduct the multi-layered integration of environmental, social, and governance (ESG) factors into our equity investment approach.

The integration of ESG factors is nothing new for us. Even before sustainability became much more relevant to the public, it was an important component of our investment approach. Across all our equity funds and mandates, we invest in high-quality business models that can grow profitably and outperform peers over the long term. Such an investment approach can only be successful if the business model and growth of the relevant companies are also sustainable. For this reason, we have taken ESG factors into account in our investment decision for a long time – even if we have not always called it "ESG integration". We set high standards when selecting companies – both in terms of "classic" fundamental factors and ESG factors. We do not invest in a company simply because of an exciting "sustainability story" if the fundamentals do not meet our requirements and, conversely, strong fundamentals are not enough without a convincing ESG profile.

Not every company in our equity portfolios has reached its potential – what counts for us is its development and the long-term pursuit of improvement.

ESG in equities: our approach

The ESG market is constantly evolving – and so are we

The need to conduct business sustainably has increased over the past few years, and the markets are penalising misconduct more frequently and more severely. The heightened awareness and the associated increased risks mean that ESG factors must be given more and more weight. As a result, our approach has changed and evolved over time – both in terms of successfully integrating ESG factors into the investment process and assessing the sustainability of a business model. For us, the use of ESG information and data is an integral part of our investment approach when it comes to understanding companies and their long-term growth prospects. There has been rapid development in the ESG market in recent years – yet there is still no single common standard.

The following publications are part of the Berenberg Funds and Solutions series:

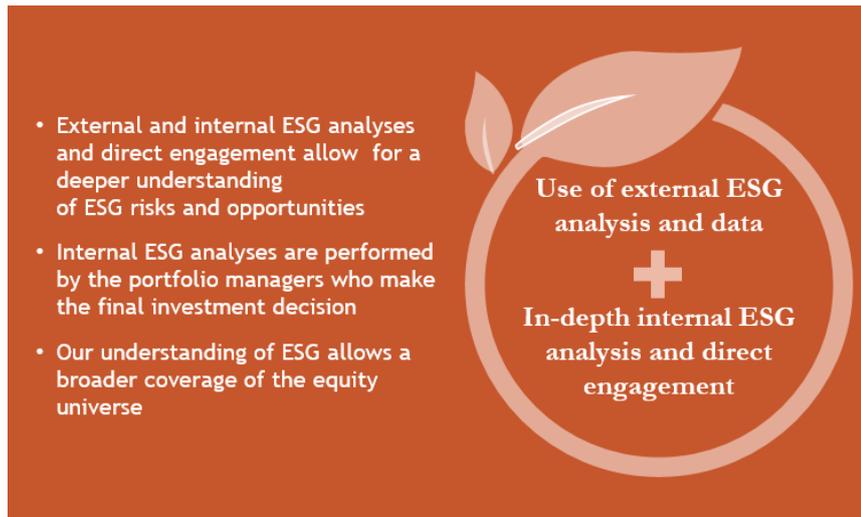
- Spotlight
- **Insights**
 - Equities
 - Fixed Income
 - Multi Asset
 - Risk-focused solutions
 - Sustainability**
 - Consulting

*Within **Insights** we provide you with a deeper understanding of our investment philosophy and thinking.*

Our FAQs on terms and questions around sustainability and ESG can be found at www.berenberg.de/en/esg-faq.

Why proprietary ESG analysis is indispensable

We believe that the standardised frameworks applied by external ESG data providers – although constantly improving – still struggle to take into account the complexity and nuances of a real company. Especially when looking at smaller companies, over-reliance on such set frameworks can easily lead to overlooking significant risks or missing out on attractive opportunities (see our [Berenberg ESG Study: "ESG Ratings: The Small and Mid Cap Conundrum"](#)).



ESG-progress in our equity fund management since the setup of the ESG Office in 2018

2018

- Launch of Positive Impact fund: Berenberg Sustainable World Equities
- Signatory: UN supported Principles for Responsible Investment (PRI)
- Member: International Corporate Governance Network (ICGN)

2019

- Exclusion: Companies with very severe ESG controversies
- Proxy voting: German portfolio companies
- Supporter: KnowTheChain initiative

2020

- FNG Label: Berenberg Sustainable World Equities
- Further development: Proxy voting expanded to further countries
- PRI Rating: “A+” for Strategy & Governance; “A” for Listed Equity module

2021

- Further development: Exclusion criteria and ESG analysis
- Publication: Active Ownership Report
- Development: Berenberg Net Impact Model
- Supporter: Access to Medicine Foundation
- FNG Label: For a total of six equity funds

2022

- ESG Investing Award: Berenberg Sustainable World Equities
- FNG-Label: For a total of seven equity funds

The ESG Office defines our principles and strategies for sustainable investment in our Wealth and Asset Management unit. It plays a key role in driving the integration of ESG criteria into the investment process.



In sustainable dialogue: internally and externally

We build on a culture of supportive collaboration between all stakeholders. Internally, our investment specialists closely collaborate with our ESG experts in the ESG Office. This open dialogue allows us to incorporate industry knowledge, experience, and current developments into our ESG philosophy and approach, and to develop them further on an ongoing basis. Ultimately, this allows us to support our portfolio managers' decision-making.

Externally, we regularly engage in constructive dialogue with the management teams of companies in which we are invested or considering an investment. On the one hand, we seek to highlight and reduce ESG risks, and, on the other hand, we encourage companies to consistently fulfil their responsibility towards society and the environment.

ESG in equities: our tools

We consider ESG risks not only when making investment decisions, but also throughout the holding period and we apply them as decision criteria for selling. As part of our fundamental equity analysis, we regularly conduct ESG analyses in cooperation with the ESG Office and monitor individual stocks with regard to various ESG aspects. In doing so, we identify at an early stage issues that could raise ethical questions and potential risks, as well as ESG-related trends and opportunities.

Screening: Berenberg ESG minimum standard

The ESG exclusion approach filters out companies associated with certain products or activities, such as controversial weapons or thermal coal mining and power generation. Our exclusion criteria set a minimum standard from an ESG perspective that companies must meet in order to be investable. We review our exclusion criteria on a regular basis and adjust them if necessary.

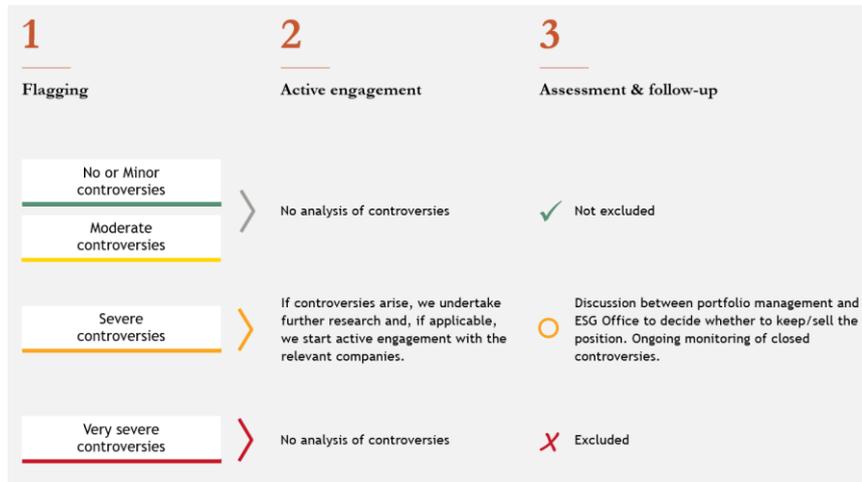
Detailed information on our Berenberg WAM ESG exclusion criteria can be found at www.berenberg.de/en/esg-publications.

Flagging: ESG controversy monitoring

As part of our ESG controversy monitoring, we identify companies that are associated with serious or very serious ESG controversies. We exclude all companies that are directly involved in ongoing very severe ESG controversies ("red flags"). In the case of severe ESG controversies ("orange flag"), the portfolio management directly engages with the company, both in the case of existing holdings and in the case of potential new investments, in order to analyse the controversy and make a final investment decision based on the outcome.



Risk management – executed in three steps



Research: ESG data analysis

For our ESG opportunity and risk analysis, we rely on our internal research and interaction with companies. In addition, we use third-party providers such as MSCI ESG. ESG data from external providers is an important input factor in a comprehensive ESG analysis. However, we do not rely purely on this information but question its results and evaluate them with the companies if necessary. Besides ESG compliance, long-term profitability remains the decisive selection factor.

Engagement: exchange with companies

Our close contact with companies, especially in the small and mid-cap segments, continuously improves our understanding of sustainability. As part of our engagement, we encourage companies to fulfil their responsibility towards society and environment.

Proxy voting: provision of vote recommendations

Based on our own Proxy Voting Policy, the portfolio management collaborates with our ESG Office to define recommendations for voting at general meetings of the portfolio companies held in our mutual equity funds. We pass these recommendations on to the investment management company, Universal Investment, which in turn takes these recommendations into account when exercising its voting rights.

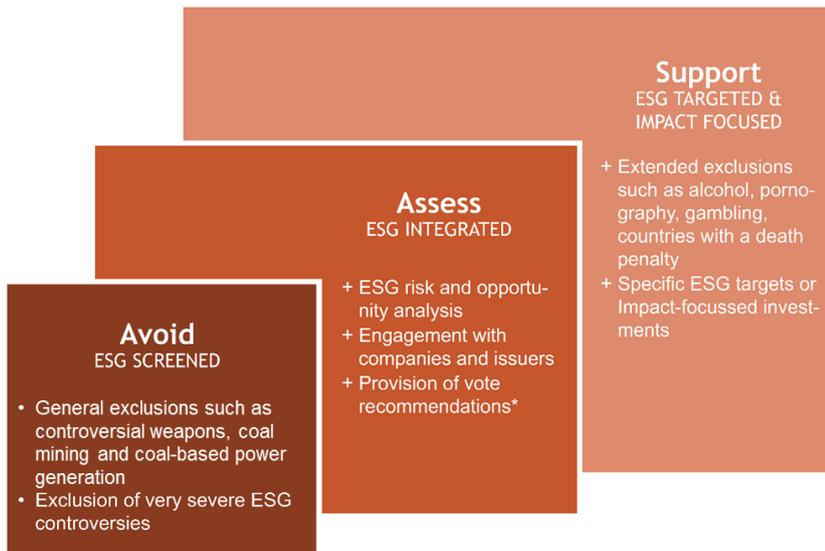
Our Berenberg WAM Engagement Policy, our Proxy Voting Policy as well as our Active Ownership Report can be found at www.berenberg.de/en/esg-publications.



ESG in equities: our offering

At Berenberg Wealth and Asset Management, we offer various ESG investment strategies with different degrees of ESG consideration to account for diverse client needs across the different asset classes equity, fixed income and multi asset. In equities, we offer funds in the ESG Integrated & Impact Focused categories.

Our product categories: sustainability in three steps



* For equity investments in public funds dependent on local restrictions.

ESG Integrated – equity funds with comprehensive ESG considerations

Identifying long-term successful companies and business models is the basis for successful investment decisions. Environmental and climate protection, the socially responsible behaviour of companies and the integrity of the management team are important non-financial performance factors. Our ESG-Integrated strategies apply a combination of ESG integration instruments in order to exclude or restrict the involvement in certain activities based on the general Berenberg WAM ESG exclusion criteria, to account for ESG risks and opportunities in the investment analysis, and to exert influence as an active investor via engagement and proxy voting activities. We are currently implementing this approach in eight mutual equity funds.

Impact Focused – equity funds with a focus on positive impact

In our Impact Focused-strategies, investments are selected with the intention of generating added value for the environment and society in addition to a financial return. Here, only companies whose products and services contribute to solving global challenges are included in portfolios. Additional and stricter ESG exclusion, the extended Berenberg WAM ESG exclusion criteria, are applied to further restrict investments in activities that, among others, do not support positive impact. We are currently implementing this approach in our mutual equity fund Berenberg Sustainable World Equities.



Our equity funds can be grouped into our internal ESG categories as shown in the table below. We applied for the FNG Label in 2022 with a total of seven equity funds. The fact that all of them have been awarded two or three stars confirms our efforts around ESG integration in our investment approach.

Berenberg equity funds	ESG integrated	Impact focused	FNG Label 2023	SFDR ¹ classification
				
Berenberg European Focus Fund	✓		★★	Art. 8
Berenberg Eurozone Focus Fund	✓		★★	Art. 8
Berenberg Europe ex UK Focus Fund	✓		-	Art. 8
Berenberg Absolute Return European Equities	✓		-	Art. 8
Berenberg Emerging Asia Focus Fund	✓		-	Art. 8
Berenberg Global Focus Fund	✓		★★	Art. 8
Berenberg European Small Cap	✓		★★	Art. 8
Berenberg Aktien Mittelstand	✓		★★	Art. 8
Berenberg Aktien Deutschland	✓		★★	Art. 8
Berenberg Sustainable World Equities		✓	★★★	Art. 9

Information on these and other Berenberg Equity funds can be found at www.berenberg.de/en/funds.

¹Sustainable Finance Disclosure Regulation

Focus on positive impact: Berenberg Sustainable World Equities

With the **Berenberg Sustainable World Equities** fund, we complement ESG-integration with a targeted positive impact to contribute to the solution of global challenges. Incorporating impact-oriented ESG factors, the fund invests globally in equities with convincing structural growth and sustainable returns.

The fund management also considers smaller companies with a strong sustainability profile and can benefit from strong synergies with our small and mid-cap experts. This ensures an admixture of smaller but high-growth and ESG-compliant companies to the portfolio.

Four global challenges that we address in Berenberg Sustainable World Equities through our investment in selected companies:



Internally developed analysis method

We use the proprietary **Berenberg Net Impact Model** to quantify the positive and potentially negative impact that our portfolio positions generate in relation to the four global challenges shown above. The UN Sustainable Development Goals (SDGs) are the starting point for this, whereby we focus on the SDGs that we consider investable.

To determine the impact of portfolio positions, we have defined specific indicators that are analysed and assigned a score for each portfolio position. The scores are summed up at issuer level and finally aggregated at portfolio level. We have defined fixed evaluation frameworks and use both quantitative and qualitative data.



ESG in equities: our reporting and transparency

We report regularly on our ESG activities, at both consolidated level product-specific level. At the consolidated level, this includes a regular update on all relevant policies and guidelines, an annual Active Ownership Report and news on our ESG approach. This information and respective documents can be found on our website at www.berenberg.de/esg-publications.

We report on relevant ESG and impact metrics at the product level and on the approach applied in fund factsheets and dedicated reports depending on the type and focus of the respective product. This reporting can be found on our website at www.berenberg.de/esg-investments.

We are continuously expanding fund-specific reporting on ESG and sustainability factors, taking account of regulatory requirements, and making our reporting available to our clients in a structured and consistent manner.



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