

ESG in fixed income – sustainably preserving and adding value

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 present our multi-layered approach to integrating environmental, social, and governance (ESG) factors in our fixed income investment approach.

Traditionally, sustainable investing has primarily focused on the equity side and has only in recent years developed more on the bond side – also due to greater complexity. Bonds are issued not only by companies, but also by governments and institutions, where a comprehensive sustainability assessment is more complicated. Sustainability-linked or project-related bonds such as green and social bonds can be sustainable investments, even if the issuer itself does not yet meet all sustainability requirements.

This complexity necessitates a differentiated ESG approach to fixed income investments, and we meet this challenge by integrating material ESG factors into credit analysis, through direct exchange with issuers, and through dedicated analysis of companies and project-related bonds for their positive impact.

ESG in fixed income: our approach

Credit analysis considering material ESG factors

Fixed income investors face particular challenges in defining and implementing a comprehensive ESG approach. The complexity is increased, among other things, by the large number of issuer types that can issue bonds, which include not only companies but also states and supranational actors. In addition, fixed income investors have a stronger focus on risk due to their investment approach and do not participate in the exploitation of ESG opportunities to the same extent as equity investors. However, due to the often long-term orientation of fixed income investors, it is all the more important to take ESG risks into account when making investment decisions.

Therefore, our focus for ESG integration in our fixed income investment process is on identifying the material factors that can lead to significant financial risks and need to be taken into account when assessing credit risks. To do this, we combine sustainability data from external providers and organisations with internal analysis to arrive at a comprehensive assessment. At the same time, depending on the type of issuer (corporate or sovereign), we apply a dedicated analytical framework that takes into account the specifics of each.

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

- Spotlight
- ▶ **Insights**
 - Equities
 - Fixed Income**
 - Multi Asset
 - Systematic Solutions
 - Overlay
 - 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.



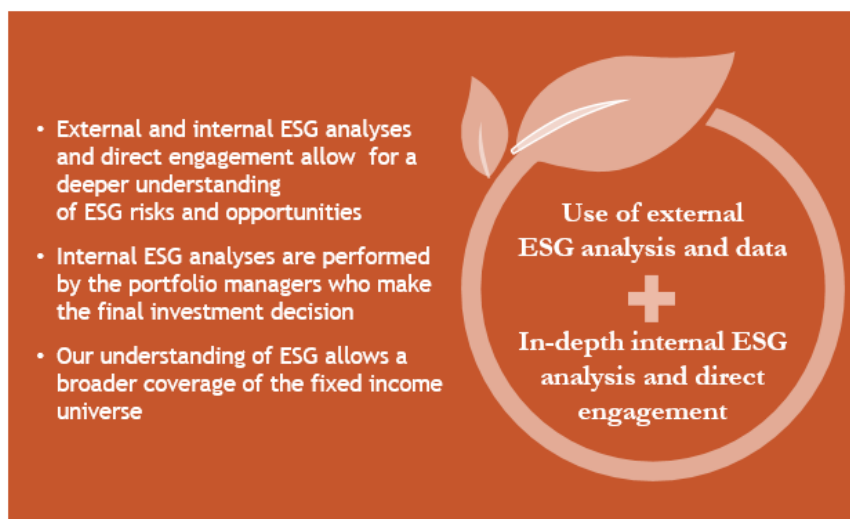
Complexity requires a multi-layered approach

The complexity of the fixed income market is reflected in the number of different issuer types as well as in different bond types and influences the ways and depth of the consideration of ESG factors in the investment process.

Bonds from the sovereign and quasi-sovereign sector, for example, represent a separate sub-sector of ESG integration with specific challenges. Here, too, the aim is usually to better assess risks based on additional information on social and environmental aspects. Unlike companies, however, states are more complex constructs without clearly defined business activities, a direct communication channel such as investor relations departments in companies is often lacking and direct escalation mechanisms in the event of unsatisfactory discussion results are limited. Despite this, we see the need for a dedicated ESG analysis and dialogue on sustainability aspects and want to continuously expand existing and new approaches and channels.

With project-related bonds such as green and social bonds, another level of ESG integration in fixed income investments is added. These bonds explicitly serve to finance environmentally or socially sustainable projects and can thus support a positive impact regardless of the issuer. Within our proprietary Berenberg Net Impact Model, we analyse these bonds for their positive impact and contribution to solving four global challenges.

For a long time, active ownership, i.e. the active influence of investors on issuers, was considered relevant only for equity investors, especially due to the lack of voting rights in fixed income investments. In the meantime, however, fixed income investors, like us, have increasingly addressed the issue and explored possibilities and mechanisms to live active ownership beyond the exercise of voting rights – because fixed income investors represent an important provider of capital for many issuers.





ESG progress in fixed income since the setup of the ESG Office in 2018

2018

- Launch: Berenberg Sustainable EM Bonds¹
- Signatory: UN supported Principles for Responsible Investment (PRI)
- Member: International Corporate Governance Network (ICGN)

2019

- Exclusion: Companies with very severe ESG controversies
- Supporter: KnowTheChain initiative

2020

- PRI Rating: “A+” for Strategy & Governance; “A” for other categories
- Launch of Positive Impact fund: Berenberg Sustainable Euro Bonds

2021

- Further development: Exclusion criteria
- Publication: Active Ownership Report
- Development: Berenberg Net Impact Model
- Supporter: Access To Medicine Foundation
- FNG-Label: Berenberg Sustainable EM Bonds¹ & Berenberg Sustainable Euro Bonds

2023

- ESG Investing Award: Berenberg Sustainable Euro Bonds

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

Maintaining a sustainable dialogue: internally and externally

We build on a culture of supportive collaboration between all stakeholders. Internally, our investment specialists closely collaborate with the experts in our ESG Office. Our 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 enables us to integrate a contemporary and multi-layered ESG approach into our portfolio management.

Externally, we aim for a constructive dialogue with companies, issuers and providers of third-party products in which we are invested or considering an investment. Our aim is to incorporate the findings into our ESG analyses, to highlight ESG risks, to avoid potential damage, and to encourage companies to consistently meet their responsibility towards society and the environment.

ESG in fixed income: our tools

We exclude bonds issued by companies that do not meet our minimum ESG standards. The same applies to government bonds based on ESG exclusion criteria for issuing countries. In our investment selection, E, S and G factors are integrated into the credit analysis. Through our active dialogue with invested companies and issuers we exert influence with the aim of ultimately inducing positive change.

The application of the ESG instruments described below depends on the internal ESG product category (see page 5 et seq.).

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. We also apply exclusion criteria to government bonds. Our exclusion criteria set a minimum standard from an ESG perspective that investments must meet in

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

¹ Renamed to “Berenberg EM Bonds ESG” as of 01/07/2023

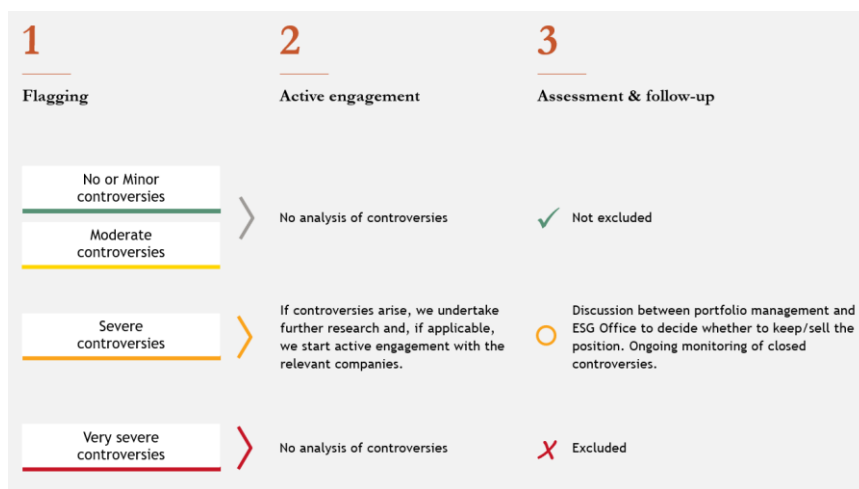


order to be investable and differ depending on the internal ESG product category. We review our exclusion criteria on a regular basis and adjust them if necessary.

Flagging: ESG controversy monitoring

As part of our ESG controversy monitoring, we identify companies that are associated with severe or very severe 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 analysis, we rely on our internal research and dialogue with companies and issuers. We also use third-party providers. 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 review the results and evaluate them with the companies and issuers if necessary. Besides ESG compliance, long-term profitability remains the decisive selection factor.

Engagement: exchange with companies, issuers and asset managers

Our close contact with companies and issuers continuously improves our understanding of sustainability. As part of our engagements, we encourage them to consistently fulfil their responsibilities towards society and environment.

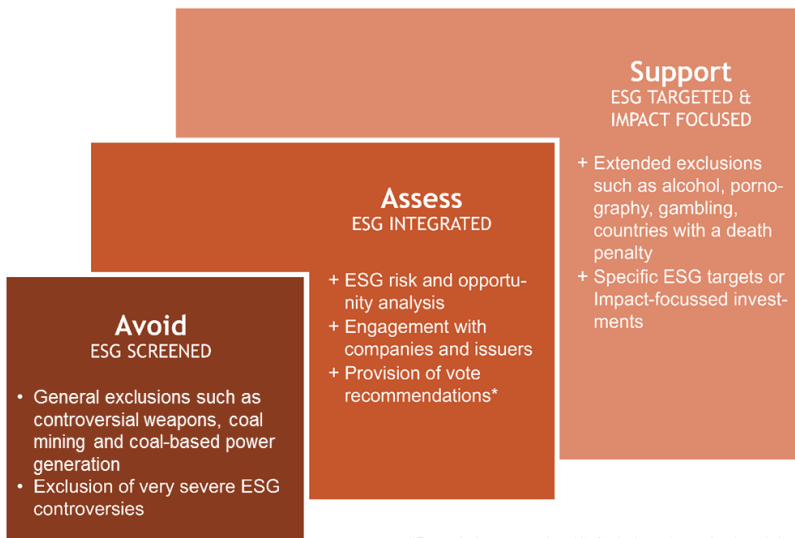
Our Berenberg WAM Engagement Policy and our Active Ownership Report can be found at www.berenberg.de/en/esg-publications.



ESG in fixed income: our offering

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 fixed income, we offer products in our categories ESG Screened and ESG Targeted & Impact Focused. Additionally, we can offer special funds and special mandates with individual criteria in the category ESG Integrated.

Our product categories: sustainability in three steps



ESG Screened – fixed income funds with monitoring of ESG risks

Our ESG Screened strategies are based on the exclusion and restriction of certain activities in order to minimize material ESG risks. The general Berenberg WAM ESG exclusion criteria are applied for strategies and products in this category.

ESG Targeted & Impact Focused – fixed income funds with ESG targets or with a focus on positive impact

Our ESG Targeted & Impact Focused strategies apply targeted ESG approaches, such as positive screening based on a variety of ESG or impact factors. Additional and stricter ESG exclusion criteria, the extended Berenberg WAM ESG exclusion criteria, are applied to further restrict investments in activities that, inter alia, do not support a positive impact. ESG Targeted strategies aim for specific ESG targets. We implement this approach in the mutual fund Berenberg EM Bonds ESG.

Impact Focused strategies only include project-related investments such as green bonds and social bonds that have a measurable positive impact on society or the environment, as well as issuers that contribute to solving global challenges through products, services or financed projects. We implement this approach in the mutual fund Berenberg Sustainable Euro Bonds.



Our fixed income funds can be grouped into our internal ESG categories as shown in the table below.

Berenberg Fixed Income Funds	ESG screened	ESG targeted	Impact focused	SFDR classification
Berenberg Global Bonds	✓			Art. 8
Berenberg EM Bonds	✓			Art. 8
Berenberg Euro Bonds	✓			Art. 8
Berenberg Euro Enhanced Liquidity	✓			Art. 8
Berenberg Euro Target 2028	✓			Art. 8
Berenberg EM Bonds ESG		✓		Art. 8
Berenberg Sustainable Euro Bonds			✓	Art. 9

¹Sustainable Finance Disclosure Regulation

Focus on ESG targets: Berenberg EM Bonds ESG

The **Berenberg EM Bonds ESG** invests in emerging market bonds and, with its sustainability focus, creates environmental and social added value. By selecting sustainable government and corporate bonds, the strategy avoids specific ESG risks and exhibits significantly less volatile performance characteristics compared to the benchmark and classic emerging market bond strategies. The selection of individual securities is based on more than 40 exclusion criteria as well as fixed threshold values for certain ESG criteria. Countries and companies are considered in a differentiated manner. This means that companies can also be selected from countries, which themselves would not be assessed as sustainable. In addition to the exclusion of countries and companies that violate our criteria, we rely on a holistic ESG approach that, in addition to classic credit ratings and dedicated ESG ratings, also includes an in-depth bond-specific fundamental analysis.

In 2022, we applied for the FNG Label with the Berenberg EM Bonds ESG. The award of two out of a maximum of three possible stars confirms the fund's holistic approach to integrating ESG criteria into the selection of securities.

Focus on positive impact: Berenberg Sustainable Euro Bonds

With the **Berenberg Sustainable Euro Bonds** fund we complement ESG integration with a targeted positive impact to contribute to the solution of global challenges. The strategy is a sustainable bond fund with a focus on investment-grade EUR-denominated bonds. Based on a multi-stage investment process, the fund invests in bond issuers and earmarked bonds (especially green and social bonds) that make a positive contribution to solving global challenges.

We also applied for the FNG Label with the Berenberg Sustainable Euro Bonds in 2022. The award of three stars confirms the fund's comprehensive approach with a focus on positive impact.

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

The Berenberg EM Bonds ESG was awarded the FNG Label 2023 and received two out of three possible stars.

The Berenberg Sustainable Euro Bonds was awarded the FNG Label 2023 and received two out of three possible stars.

Four global challenges that we address in Berenberg Sustainable Euro Bonds through investments in selected companies, issuers, and project-related bonds:



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 area, 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 score is summed up at issuer/investment level and finally aggregated at portfolio level. We have defined fixed evaluation frameworks and use both quantitative and qualitative data.



ESG in fixed income: our reporting and transparency

We report regularly on our ESG activities, at both consolidated level and 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 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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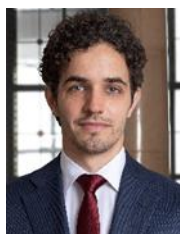
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