

#### Sustainable multi-asset: diversification with a comprehensive 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. Therefore, in this issue of Insights, we present our multi-layered approach to integrating environmental, social and governance (ESG) factors in our multi-asset investment approach.

Traditionally, sustainable investing has primarily focused on the equity side, but is still in its infancy on the multi-asset and bond side, at least in the public debate – partly because this area is relatively complex. 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. In addition, there needs to be a discussion about what sustainability means for investments in commodities or under what conditions exchange-traded funds (ETFs) or other third-party funds can be used in sustainable multi-asset strategies for regions or sectors that are difficult to cover comprehensively with individual investments.

We have been offering our customers sustainable multi-asset investment opportunities for a long time, successfully combining the key investment objectives of return and risk with responsible investing. The mere application of historical ESG data from external providers is not sufficient for this purpose. With substantiated and forward-looking sustainability analyses as well as an active dialogue about sustainability issues with companies and issuers, we aim to make a positive contribution to the environment and society.

#### ESG in multi asset: our approach

##### Distinguished ESG integration in all relevant asset classes

While sustainable investing has traditionally focused strongly on equities and thus on companies, a broad approach across different asset classes, which is essential to our multi-asset understanding, brings additional challenges in terms of integrating ESG factors.

Using ESG information to assess ESG risks and opportunities, exercising positive influence as an active investor, and integrating these tools consistently and comprehensively into the investment process are not equally straightforward or well-defined steps for all asset classes. Instead, the type and scope of implementation must vary to meet the specific characteristics of the asset class in question.

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

Spotlight

► **Insights**

Equities

Fixed Income

**Multi Asset**

Systematic Solutions

Overlay

Sustainability

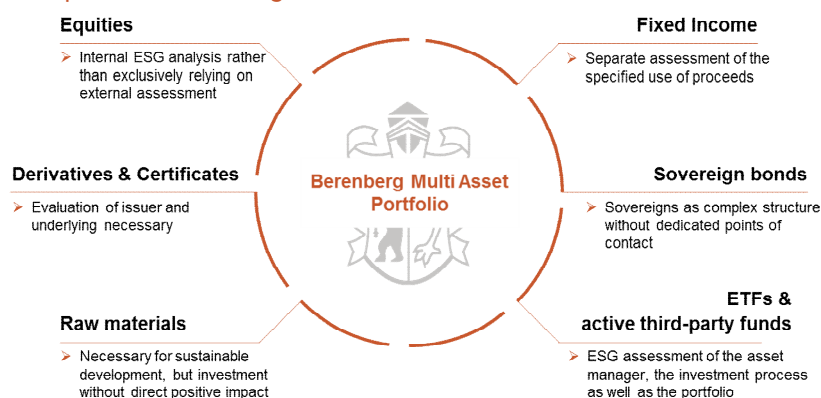
Consulting

*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](http://www.berenberg.de/en/esg-faq).*

The market is engaged in an active and ongoing debate, resulting in exciting new concepts. Our described approaches in our multi-asset strategies aim to incorporate the current state of this debate. Some asset classes, such as equities and corporate bonds, are pioneers in ESG integration. Here, there is already a broad consensus on suitable ESG criteria and integration options. For other asset classes such as commodities or derivatives, which are relevant for our multi-asset approach, such a consensus has not yet been established. We therefore consider it important to actively shape these changes and take account of further developments so that we can maintain a state-of-the-art approach. In our view, it is essential that a holistic and comprehensive ESG concept is integrated into the investment strategy with asset class-specific approaches - for the entire portfolio, without neglecting individual asset classes.

**Our truly multi-asset approach includes a wide range of different instruments with specific ESG challenges:**



## ESG progress in our multi-asset management

### 2009

- Launch: "Berenberg Sustainable Stiftung"

### 2018

- Creation: Berenberg Wealth & Asset Management ESG Office
- Signatory: United Nations supported Principles for Responsible Investment (PRI)
- Member: International Corporate Governance Network (ICGN)

### 2019

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

### 2020

- Development: Proxy voting process expanded to further countries in Europe, the US and the UK
- PRI Rating: "A+" for Strategy & Governance; "A" for other categories
- Exclusion: Extended criteria for strategies with an ESG focus

### 2021

- Further development: Exclusion criteria and ESG approach for third-party funds
- Publication: Active Ownership Report
- Development: Berenberg Net Impact Model

*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.*

- Supporter: Access To Medicine Foundation
- Launch of Positive Impact Fund: Berenberg Sustainable Multi Asset Dynamic
- Reporting: Sustainability reporting for the Berenberg Sustainable Stiftung and quarterly ESG reports for the asset management strategies

### **Maintaining a sustainable dialogue: internally and externally**

We build on a culture of supportive collaboration between all stakeholders. Internally, our portfolio managers and 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 multi asset: our tools**

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

When selecting active funds, in contrast to a classic ESG rating, which only assesses the securities contained in the portfolio, we also examine the product provider's orientation towards sustainability, as well as the entire investment process and quality of the sustainability reporting. In this way, we aim to not only to support a positive environmental and social contribution, but also to identify and eliminate ESG risks at the investment level at an early stage.

Unlike equities and bonds, the commodities asset class is not based on a company, state or other organisation. Thus, the investor cannot exercise active influence in this regard. Nevertheless, commodities play an important role in our multi-asset strategies. We exclude investments in agricultural commodities due to ethical concerns regarding staple food price speculation, but in our opinion other specific commodities are still investable and do not pose a risk in terms of ESG. For example, industrial metals play a key role in the shift towards renewable energy when it comes to climate protection, renewable power generation and e-mobility.

The specific application of the ESG instruments described below depends on the internal ESG product category (see page 6 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, commodities, third-

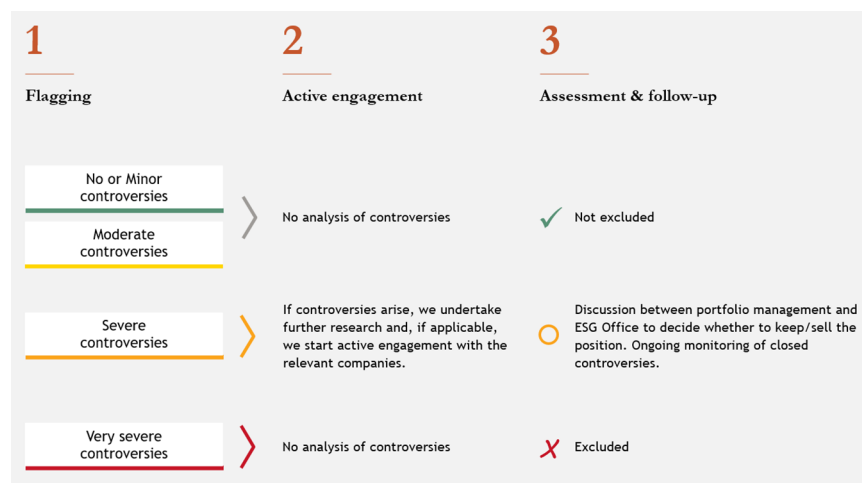
*Detailed information on our Berenberg WAM ESG exclusion criteria can be found at [www.berenberg.de/en/esg-publications](http://www.berenberg.de/en/esg-publications).*

party funds, derivatives and certificates. The Berenberg ESG exclusion criteria set a minimum standard from an ESG perspective that companies must meet in order to be investable for the portfolio and differ depending on the internal ESG product category. We regularly revise and specify our exclusion criteria (most recently in 2021).

### 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 involved in very severe ESG controversies ("red flag") from any investment. In the case of severe ESG controversies ("orange flag"), the portfolio management enters into direct contact with the company ("engagement", see also below), both in the case of existing holdings and in the case of potential new investments, in order to analyse the controversy with the company and make a final investment decision based on this.

### Risk management – executed in three steps



### Research: ESG data analysis

For our ESG opportunity and risk 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. We also conduct an internal ESG analysis for third-party funds, both active and passive, based on a proprietary questionnaire and regular exchanges with the asset managers of the third-party funds. Besides ESG compliance, long-term profitability remains the decisive selection factor.

### Engagement: exchange with companies, issuers and asset managers

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

*Our Berenberg WAM Engagement Policy, our Proxy Voting Policy and our Active Ownership Report can be found at [www.berenberg.de/en/esg-publications](http://www.berenberg.de/en/esg-publications).*



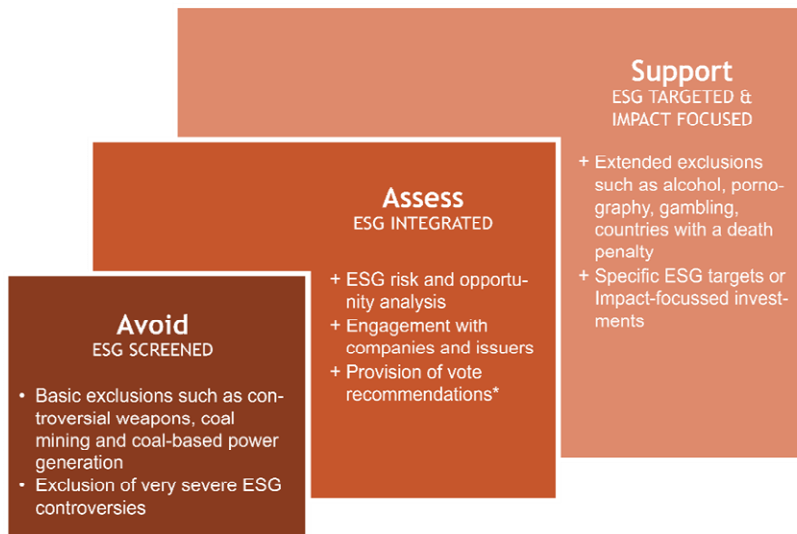
### **Proxy voting: provision of vote recommendations**

Based on our own Proxy Voting Policy, the portfolio management collaborates with our ESG Office to provide voting recommendations for the annual general meetings of our portfolio companies. 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. This instrument is used for equity holdings in our mutual funds.

## ESG in multi asset: 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 multi asset, we offer products in all of our three categories: ESG Screened, ESG Integrated and ESG Targeted & Impact Focused.

### Our product categories: sustainability in three steps



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

### ESG Screened – multi-asset strategies 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, including the exclusion of companies with very severe ESG controversies, are applied for strategies and products in this category.

### ESG Integrated – multi-asset strategies with comprehensive ESG considerations

Our ESG Integrated strategies apply a combination of ESG integration instruments – in order to exclude or restrict the involvement in certain activities, to account for ESG risks and opportunities in the investment analysis, and to exert influence as an active investor. We implement this approach in various asset management strategies, especially in our Berenberg Stiftung strategies.

### ESG Targeted & Impact Focused – multi-asset strategies 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 Sustainable Stiftung.

Impact Focused strategies only include companies, issuers and project-related investments such as green bonds that have a measurable positive impact on society or the



environment and contribute to solving global challenges through products, services or financed projects. We implement this approach in the mutual fund Berenberg Sustainable Multi Asset Dynamic.

Our multi-asset funds can be grouped into our internal ESG categories as shown in the table below.

Berenberg Multi Asset Funds	ESG screened	ESG targeted	Impact focused	SFDR classification
Berenberg Multi Asset Defensive	✓			Art. 8
Berenberg Multi Asset Balanced	✓			Art. 8
Berenberg Sustainable Stiftung		✓		Art. 8
Berenberg Variato	✓			Art. 8
Berenberg Sustainable Multi Asset Dynamic			✓	Art. 9

Information on these and other Berenberg Equity funds can be found at [www.berenberg.de/en/funds](http://www.berenberg.de/en/funds).

### Focus on ESG targets: Berenberg Sustainable Stiftung

The Berenberg Sustainable Stiftung is a sustainable and distribution-oriented multi-asset fund with a defensive investment approach. The investment ratios, the capital commitment period of bonds as well as the regional and sectoral allocation are actively managed, with a maximum equity allocation of 35%. The fund pursues specific ESG objectives with regard to the environment and society. The focus is on forward-looking CO<sub>2</sub> intensity reduction, an outstanding ESG score as a proxy for social and governance factors, and a high proportion of impact-oriented investments.

Fund managers Oliver Brunner and Janine Brune also focus on green bonds, social bonds and sustainability bonds and benefit from strong synergies with our bond experts, ensuring returns while also adhering to high social and climate standards.

### Focus on positive impact: Berenberg Sustainable Multi Asset Dynamic

The Berenberg Sustainable Multi Asset Dynamic is a sustainable multi asset fund with an offensive-dynamic investment approach. The fund invests globally in equities and primarily earmarked bonds with a positive impact on solving global challenges.

Fund managers Oliver Brunner and Torsten Ziegler focus their stock selection on quality companies with structural growth drivers. In doing so, they benefit from strong synergies with our equity experts in identifying companies that may profit particularly from future developments and megatrends.

Four global challenges that we pursue in Berenberg Sustainable Multi Asset Dynamic through our investments in selected companies and issuers:



We use our 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 score is 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 multi asset: 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](http://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](http://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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