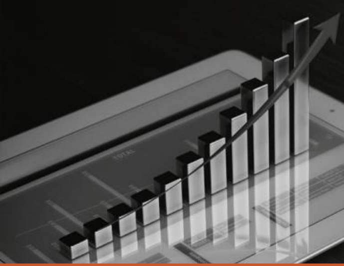


BERENBERG
Funds and Solutions

INSIGHTS – MULTI ASSET

7 July 2021

The Berenberg Multi-Asset Guide – our investment philosophy and its implementation

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

- Spotlight
- ► Insights
  - Equities
  - Fixed Income
  - Multi Asset
  - Systematic Solutions
  - Overlay
  - ESG

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

Turning away from traditional approaches

Multi-asset strategies play a central role in maintaining purchasing power and real wealth creation today because, with investments such as savings books or government bonds, only one thing is certain in a low interest rate environment: the loss of purchasing power. Multi-asset strategies use different asset classes, regions and segments depending on the investor's risk appetite and return expectations. They consider the interaction of these assets and benefit from their different behaviours. Compared to strategies invested in only one asset class, they achieve a higher diversification effect and significantly reduce the fluctuations of the portfolio.

Changing market behaviour requires multi-asset strategies to be rethought.

But multi-asset strategies also have to react to the changes in market behaviour in recent years. The low interest rate environment, the liquidity glut from central banks, the increasing importance of systematic investment strategies, the strong growth of passive investments, new and more complex products, the changed correlation properties of investments, and the desire of investors to take sustainability aspects into account require a departure from traditional approaches, such as a strong benchmark orientation or pro-cyclical behaviour. Added to this are the increasing flood and speed of information.

Berenberg offers modern multi-asset strategies.

Berenberg has fundamentally renewed its multi-asset investment philosophy in recent years and now offers modern, promising multi-asset approaches with its multi-asset funds and asset management strategies that explicitly take into account the changed market environment; they go far beyond the traditional approaches of a mix solely of bonds and equities or a static mix of the two. The success of our strategies, especially in the challenging last few years, has proved us right: multi-asset approaches must permanently react to the challenges of the market to achieve added value for investors.

Fig. 1: Changing market behaviour requires new thinking

Source: Berenberg

We rightfully receive many questions from our clients and interested parties about our investment philosophy, our approaches and our way of working. Below, we answer the 10 most frequent questions and thus provide detailed insights into our thinking and work.

10 questions and answers: we provide insights into our thinking and work.

1. What is multi-asset for us?

"True" multi-asset is in the foreground for us.

We generally understand "multi-asset" to mean investing across all regions, asset classes, segments and investment instruments. In doing so, we make use of the full capital structure of companies. Thus, we invest not only in equities and normal bonds, but also in convertible, equity, high-yield and subordinated bonds. Commodities for us include precious metals, industrial metals and energy, but we exclude agricultural commodities and livestock for ethical reasons. In order to achieve broad diversification, we also deliberately mix in low-correlated niche segments such as catastrophe bonds, microcredit funds, sustainable impact strategies and, selectively, other liquid alternative investments. The goal is a "true" multi-asset portfolio (ie not just an equity portfolio with an increased cash quota and gold admixture). We thus make use of all diversification opportunities offered by the market. We limit ourselves to liquid instruments. Private equity or debt, as well as real estate, can then be added to our clients' individual portfolios alongside our funds or asset management strategies.

Positioning is based on strong capital market opinion and conviction – strategically, tactically and in individual security selection.

What matters, however, is how we invest in this broad universe. As discretionary investors, we are convinced that one should position oneself according to one's capital market opinion and conviction. Consequently, it is important for us to pursue a holistic, clear, promising approach. We focus on active and flexible asset allocation that exploits both strategic and tactical opportunities if the reasons are analytically sound and we have a high level of conviction. Tactical opportunities include not only classic quota management but also the exploitation of short-term market opportunities, including anti-cyclical and off-benchmark. In addition, we actively select individual securities in all asset classes. In doing so, we draw on our in-house specialists.

Our understanding of multi-asset clearly distinguishes itself from approaches such as mixed, multi-strategy or global macro funds.

Our understanding of multi-asset thus distinguishes itself from approaches such as mixed, multi-strategy or global macro funds. By "mixed funds" we mean a static mix of asset classes. Multi-strategy funds pursue several investment strategies in parallel, usually across different asset classes, with the aim of benefiting from the diversification of different investment strategies. In times of crisis, however, these concepts often do not work out, because the strategies then usually develop more in the same direction than anticipated. Global macro strategies focus on overarching economic developments, central bank policy and valuations. Sound individual security selection usually plays only a subordinate role in these strategies.

We do not see a distinction between multi-asset strategies and asset management strategies. Given the low interest rate environment, asset management strategies today are almost inevitably multi-asset strategies. However, asset management strategies are often associated with some degree of "wealth preservation". They tend to be defensive, long-term-oriented and managed with a "steady hand". The regional investment focus is often on one's own currency area, especially on the bond side. From this perspective, one could argue that asset management strategies are a subset of multi-asset strategies.

Asset management strategies today are almost inevitably multi-asset strategies.

2. What is the basis of our investment philosophy?

Holistic thinking, a sound market opinion, consistency and transparency are our guiding principles. As active and discretionary managers, we are convinced that only with a strong and well-founded capital market opinion can a better result than the benchmark be achieved in the long term. In our multi-asset strategies, we implement our market opinion decisively, and also anti-cyclically, contrary to the market consensus and away from the benchmark.

In our strategies, we implement our well-founded capital market opinion in a decisive manner.

An informed opinion is all the more important as we are convinced that the market structure and market behaviour have changed significantly in the past decade.[1] Increasingly trend-enhancing behaviours among many market participants can be observed. Low interest rates, the replacement of government securities with corporate or emerging market bonds, and higher equity ratios make multi-asset portfolios less well diversified. As a result, many multi-asset investors are also increasingly behaving in a pro-cyclical manner – for example, reducing risk in falling markets. In addition, the importance of systematic investment strategies has increased – not least due to "robo-advisors". As a rule, these strategies also act pro-cyclically and thus reinforce trends.

We are convinced that market behaviour has changed significantly.

There are also fewer and fewer value investors who sometimes act anti-cyclically. This is because value strategies have underperformed for many years. Also, the baby boomers in the USA are retiring; they often invested in value-focused funds and are now gradually selling them again. In addition, there is the rise of electronic trading platforms, the advance of passive investing via ETFs and the requirements of MiFID II, especially for investment advice. Liquidity on the markets has thus changed. In combination with trend-boosting investor behaviour, this has led to an increase in both upward and downward exaggerations and sharp corrective movements. So there are more and more extreme events. In 2020, there were almost three times as many abrupt, sharp market movements (4-sigma movements) across all asset classes as in the year of the financial market crisis in 2008 (see Fig. 2).

The markets are increasingly experiencing both upward and downward exaggerations and sharp corrective movements.

[1] See Berenberg Markets – Focus "Attention Risk – Market Vulnerability Rises", 11 October 2018; Berenberg Markets – Focus "How Black Swans Became a Plague", 20 April 2020; Berenberg Markets – Focus "Corporate Bonds – 2020: Year of Extremes or New Normal", 8 July 2020; Berenberg Markets – Focus "Passive Investments Change Market Structure and Market Behaviour", 5 May 2021.

In this market environment, a well-founded market opinion is elementary in order to be able to distinguish market movements driven by systematic investment strategies from fundamentally justified movements. For only with corresponding convictions is it sensible to go against trends. In addition, risks, market sentiment and investor positioning must be continuously monitored. This information provides a solid basis for our decision-making process, both in necessary ad-hoc decisions and in the regular investment and asset allocation committees. The positioning of important investor groups is just as interesting in the current market environment as fundamental key figures.

Market movements driven by systematic strategies must be distinguished from fundamentally justified ones.

The changed market behaviour requires a fundamental rethink: with flexibility and a tactical, opportunistic approach, we can take advantage of the increasingly occurring exaggerations for our investors. A departure from a strong benchmark orientation or simple investment quota management is necessary. Based on a long-term strategic allocation, it is a matter of flexibly and actively managing the allocation quotas and expanding them to include tactical market opportunities – especially counter-cyclically. This also makes it possible to take advantage of the increasingly frequent exaggerations in the market. Broad diversification and investments away from benchmarks ensure a high degree of risk diversification on the one hand and opportunities for above-average returns on the other. In addition, the philosophy of security selection is central. Away from benchmarks, we invest in companies and investment themes with above-average long-term appeal and structural value drivers.

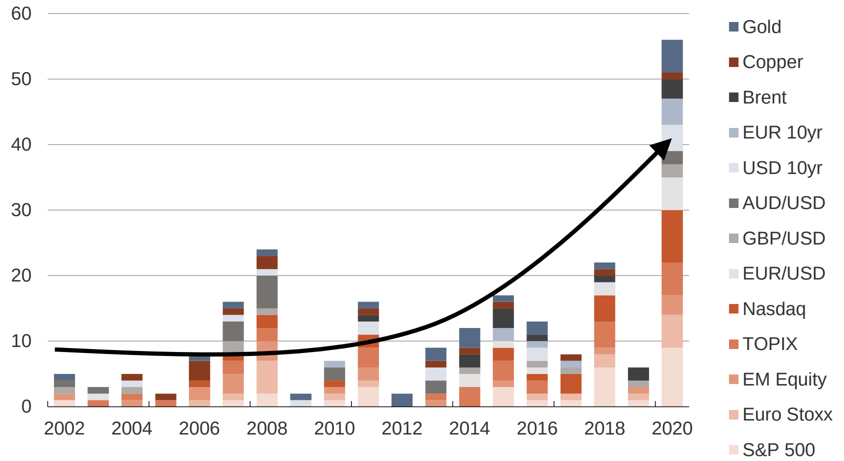
We have adapted our investment strategy to the changed market behaviour.

Our investors must be able to understand the motives behind our decisions. Investment decisions cannot always be right in the financial markets, as everyone is aware. But what we must ensure for all decisions are comprehensible, analytically sound reasons. In our experience, the proportion of successful decisions then also increases. We therefore communicate our capital market opinion and positioning transparently and promptly. All publications can be accessed at www.berenberg.de/en/capital-markets-view or subscribed to as regular newsletters. Our clients appreciate this transparency.

Our capital market views and investment decisions are transparent and comprehensible.

Fig. 2: More and more extreme events across all asset classes

Number of daily movements at least four times greater than the standard deviation of the daily movements of the last 100 days in 13 different installations



Time period: 01/01/2002-31/12/2020
Source: Bloomberg, own calculations

3. How do we generate added value for investors?

We have an experienced multi-asset team that actively exploits capital market opportunities.

As multi-asset specialists, one of our core competencies is assessing the attractiveness and combination of individual asset classes against the backdrop of the current market and economic environment. Within the framework of our investment process, we therefore focus on the tactical management of investment quotas and the search for investments that are attractive in the long term, as well as the generation and utilisation of rather short-term-oriented tactical investment ideas, also counter-cyclically against the prevailing market opinion. The goal is to put together a multi-asset portfolio that is rich in opportunities but also robust, depending on the respective risk appetites and needs of our clients.

For us, active management means more than just controlling the share quota.

In our balanced strategy, for example, the equity quota can be overweighted or underweighted by up to 15% – ie fluctuate by a total of 30% around the strategic weighting of 50%. We have actively used a large part of this leeway in recent years. We also create added value for our clients by changing the weighting of individual regions, selecting the right instruments, taking into account different investment styles (such as quality or growth), and adding small caps on the equity side or high-yield bonds on the bond side.

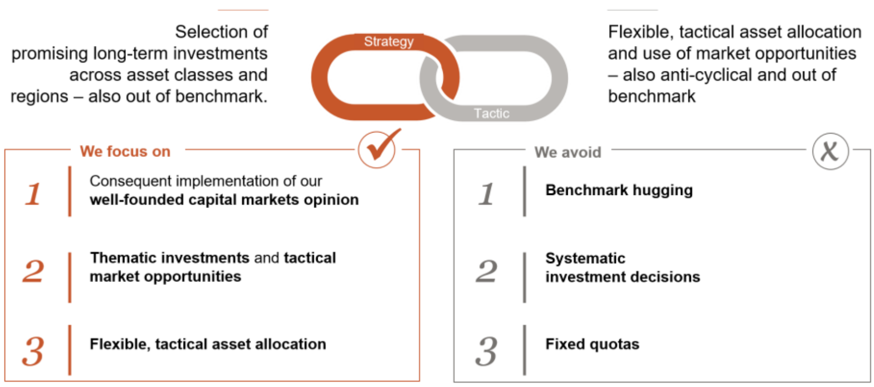
Our analytical skills and ability to act quickly create added value in the allocation.

We prepare many of the analyses relevant to our strategy ourselves, but we also make use of the extensive know-how of external analysts in order to critically question, update and complete our market assessment. All employees of the multi-asset portfolio management team are involved in our market assessment. However, the final portfolio allocation is ultimately controlled by a limited group of experienced portfolio managers and multi-asset specialists, so that decisions can be made promptly at any time and a clear market opinion is reflected in our portfolios.

Close cooperation with specialists creates additional added value in the selection process.

To add extra value within individual asset classes, we work with a broad network of specialists to select the most promising securities in each asset class. As European equities have a significant impact on the performance of our portfolios, the close cooperation with our equity portfolio management team, a highly experienced and successful team for the selection of European equities, is particularly noteworthy. The efficient combination of our broad multi-asset expertise with this specialist knowledge creates, in our view, the greatest possible added value for our clients' assets.

Fig. 3: Key elements of our approach - a strong capital market opinion and active asset allocation



Source: Berenberg

4. What is the significance of a benchmark?

For us, a benchmark is only a rough guide for the strategic alignment of a portfolio. It serves as an objective benchmark for the performance that would have been achievable on the capital market with a corresponding risk appetite. It makes it possible to assess whether we have succeeded in generating an additional return for our clients with our allocation and selection decisions over a certain period.

The benchmark only serves to us as a guide in terms of market return and risk, from which we deliberately deviate significantly.

Due to the increase in passive, index-tracking investing and systematic investment strategies, indices and thus benchmarks themselves are becoming increasingly concentrated and in many cases unbalanced. In addition, many supposedly active managers are also moving ever closer to benchmarks to reduce risk. Such a market environment offers increasingly attractive opportunities for active managers like us.

Deliberate benchmark deviations offer opportunities, especially in a market increasingly dominated by passive strategies.

Our goal is to generate an attractive additional return over the long term through our active investment approach. To achieve this, we sometimes deviate significantly from the prescribed quotas of the benchmark and deliberately invest outside the benchmark, whether it is in regions, market segments or individual securities (high "active share"). With regard to the risk taken, we thus also consciously deviate actively from the benchmark and temporarily tolerate comparatively higher fluctuations in our portfolio. Increased risk is worthwhile, for example, when risks are compensated for with high premiums and the capital markets offer many opportunities. Conversely, we reduce risks when they are no longer adequately compensated for.

5. What has changed due to the low interest rate environment?

For years it was relatively easy for conservative investors to generate positive returns with bond investments and to maintain purchasing power. Since interest rates have been negative in some cases and are generally noticeably below the inflation rate, real capital preservation or even asset growth is hardly possible with bonds alone. Either one takes higher risks in the low interest rate environment or one does not achieve a return – and the latter is not really an option, especially if one wants to preserve capital after deducting inflation. Those who are willing to take higher risks should be clear in advance about what risk means and whether it is at least temporarily bearable. Because one thing is clear: sooner or later the acid test will come. Avoiding structural risks is our priority, but we consciously tolerate short-term volatility.

Without taking on higher risks, a positive return is barely possible any more.

The almost perfect hedge for risk investments, in the form of safe government bonds with a long duration and at the same time a positive return, no longer exists. Classic 60/40 portfolios with 60% US equities and 40% US government bonds have yielded around 10% pa over the last 40-50 years according to a study by JP Morgan, also thanks to falling inflation and the associated falling interest rates. Over the next decade, the potential return is likely to be closer to 3-4% pa in our view. The correlation properties between government bonds and equities were decisive for the success of this static approach.

US government bonds were regularly able to gain and compensate for part of the losses during intermittent stock market corrections. But this seems to be over: the short-term correlation between US government bonds and equities is no longer negative, and the increasing synchronisation in periods of stress, such as in March 2020, could cause difficulties for investors in the future.

The hedging character of government bonds is now significantly lower due to the changed correlation to equities.

In this changed environment, we have to pay, in particular, attention to the risks in multi-asset mandates and make adjustments to the positioning if necessary. However, a long-term investment horizon that allows us to cope with limited fluctuations in value is ultimately the key in this environment. The longer the investment horizon, the more likely it is that interim losses can be recouped and that the long-term investment objective will ultimately be achieved. The alternatives are either a very defensive basic orientation of the strategic asset allocation or the continuous hedging of risks. However, the former hardly opens up any return opportunities in a persistently low interest rate environment and the latter causes hedging costs that are too high, so that the achievable returns would be too low even with a higher weighting of riskier investments. Ultimately, especially in a low interest rate environment, it is a matter of collecting existing risk premiums.

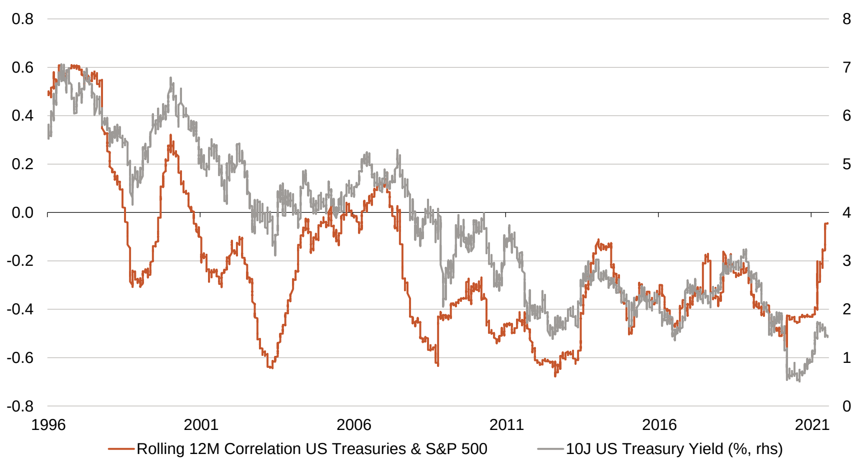
A low interest rate environment requires a longer investment horizon and acceptance of fluctuations.

Especially in distribution-oriented strategies for investors who depend on regular income, it is now elementary to be invested in risk assets. Whereas until a few years ago it was sufficient to invest exclusively in the bond market in order to receive adequate interest income of 2-4%, other investments must now generate this income, as bonds can hardly contribute to this at the yield level achieved. For distribution-oriented investors who want an annual distribution of ordinary income, dividend income from shares can represent such a source of income, for which, however, increased risk-bearing capacity must be accepted.

Increasing importance of dividend income among distribution-oriented investors.

Yet bond yields may have reached their lowest point. However, this makes the situation worse for many years before it gets better. As inflation rises, equities and government bonds tend to be positively rather than negatively correlated, making government paper even less attractive than before. The environment favours real assets over the longer term, and these tend to be commodities and reasonably valued equities rather than bonds. Cyclical companies and companies with pricing power should perform better in an environment of higher inflation. For diversification, we focus on commodities, even beyond gold. On the other hand, we actively manage asset allocation and, in strategies where it is permitted, also tactically rely on hedging by means of futures and options, as well as volatility and other liquid alternative investments, as an additional source of income or as a partial substitute for the classic bond portfolio. However, where a diversion into other asset classes

Fig. 4: Bonds - less carry and lower diversification benefit



Time period: 02/01/1995-02/07/2021
Source: Bloomberg, own calculation

is not possible, we replace classic long-dated government bonds with bond segments that have a more attractive risk/reward profile and are less dependent on the development of government bond yields.

6. What role do models or systematic approaches play?

Investment decisions are made by experienced portfolio managers; models offer support, especially in the structured processing of information.

Regarding our investment decisions, we pursue a structured and well-founded, yet discretionary and thus non-systematic or rule-based, approach. The structured, sober tracking of economic, fundamental and technical factors, as well as market sentiment and supplementary positioning analyses, are important components of a discretionary investment process. In contrast to purely quantitative approaches, however, these factors only indirectly determine the portfolio – after weighing up the various information, investment decisions are made on a discretionary basis. Models play an important role in the structured processing of the wealth of information to be processed. They generate ideas and support decisions. However, the decisions are made by experienced portfolio managers and not by the models themselves.

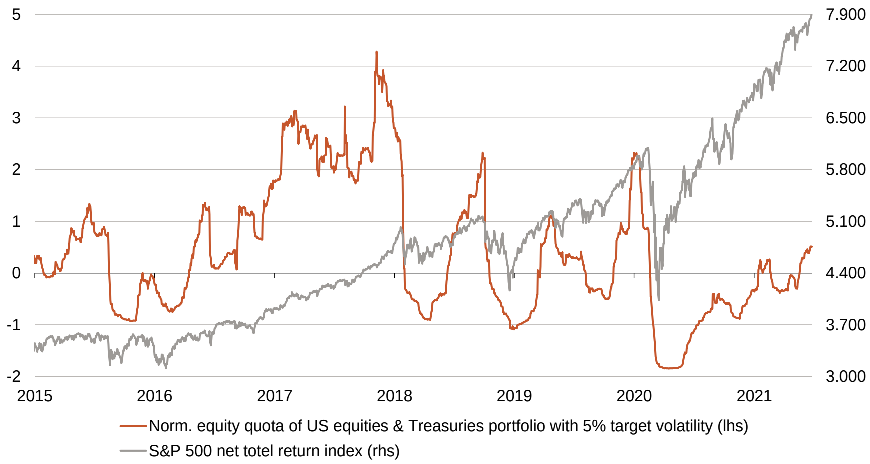
Models are often used without accurate reflection and recognise structural breaks too late.

In our view, however, the constant increase in available data and ever more powerful analysis programs means it is tempting to use them quickly and without careful reflection. The analysis must always start with a theory about economic relationships, otherwise one quickly ends up with so-called "data mining". In this case, arbitrary models are applied to the data until relationships are supposedly identified. However, an observed correlation does not necessarily mean a causal relationship. In that case, it cannot be expected that the past will repeat itself. In addition, systematic, rule-based approaches tend to recognise changing market structures very late – a major shortcoming in view of the significant change in market behaviour in recent years (see question 2). Therefore, we are also sceptical in our strategies about the use of third-party funds that invest in a fully automated way, especially since such strategies often resemble a black box and are difficult to comprehend.

We use knowledge about the behaviour of systematic investment strategies.

Nevertheless, the importance of systematic strategies and, moreover, passive investments has increased in the markets. Instead of behaving like them, we try to profit from their behaviour. The often predictable actions of systematic and rule-based approaches serve as an indicator for our discretionary decisions. Especially in

Fig. 5: Knowledge about the positioning of systematic investment strategies can be valuable for contrarian investment decisions



Time period: 01/01/2015-02/07/2021
Source: Bloomberg, own calculation

times of crisis, knowledge about the actions of these market players can be very beneficial (see Fig. 5).

Apart from investment decisions, models play an essential role in monitoring portfolio risks and risk management (see question 10).

7. What role do active funds and ETFs play?

Funds expand investment opportunities.

Part of our multi-asset philosophy is to identify the most promising investments across all liquid asset classes, regions and investment instruments. Since we cannot be experts in selecting suitable investments in each of the markets we consider attractive, the use of funds is an option in these cases. In principle, it is then first necessary to weigh up whether an investment with an active or a passive fund (ETF) promises the greatest opportunities.

ETFs are suitable for tactical management and in efficient markets.

ETFs are well suited to managing investment quotas and making adjustments to more short-term tactical positioning because of their low costs and flexible tradability. Especially for tactical ideas, ETFs can be a good choice: while many active managers focus on high-quality companies, jumps in the index are often driven by broad optimism, which particularly benefits companies of weaker quality, which usually only play a stronger role in ETFs. In addition, it makes sense to use them in very efficient markets, such as the broad US equity market, because hardly any active manager can deliver added value there over the long term. Since the ETF universe is very broad and constantly growing, added value can also be achieved over the benchmark with the tactically correct mix of ETFs.

In less efficient and more illiquid markets, active funds are more promising.

In less efficient and less liquid markets, which are usually only monitored by a few analysts or investors, or in markets with structural challenges, such as the European equity market, the use of individual stocks or an active fund is often more promising. In these markets, fund managers can make the best possible use of experience, market or company access, specialist knowledge and their own research, and achieve a sustainable excess return over a market benchmark. Besides Chinese bonds, another example of one of these markets is the equity segment of small and medium-sized companies (small and mid-caps). In addition to the often low liquidity of the companies' shares, there are often higher individual stock risks, so that a diversified fund investment is better suited for this market than selecting a small number of individual stocks. Often, these more illiquid and less efficient markets also have advantageous correlation properties to the rest of the portfolio, as different investors are usually active in them than in the large, established markets.

A special factor in favour of using funds is added in the bond market. Since many bonds can only be purchased with a minimum denomination of €100,000, the use of active funds or ETFs for diversified investments is particularly suitable for smaller assets.

Convincing performances and low costs speak for the use of in-house funds.

In our selection process, we consider both external and internal funds as potential investments and assess them according to the same criteria. Consequently, Berenberg funds must be competitive to be used in our multi-asset strategies. Most Berenberg funds perform exceptionally well in a competitive comparison. If in-house funds are used, we benefit not only from the intensive internal exchange of information but also from lower costs thanks to special tranches without management fees. A competing product must first compensate for this advantage through better performance.

8. What role do alternative investments and thematic investments play?

Alternative investments are an important component of the portfolio alongside equities and bonds. Their relevance has even increased in the current low interest rate environment, as alternative investments can have characteristics that were typically associated with bond investments in the past. As a result of the low interest rate environment, bonds can only partially fulfil these characteristics.

Alternative investments are an important supplementary component.

In the area of alternative investments, we focus exclusively on liquid investments. These include commodities, whereby we invest not only in gold but also in other precious metals, industrial metals and energy commodities, as well as other liquid alternative investment strategies. These have their roots in the hedge fund sector and pursue different strategic approaches, such as market-neutral long/short strategies in the equity and credit sectors, event-driven strategies and volatility strategies.

On the one hand, alternative investments can thus contribute to stabilising the performance of the overall portfolio as an additional source of income relatively uncorrelated to the classic equity and bond markets, and, especially in times of low bond yields, they represent an alternative to these. On the other hand, we can also reflect our market opinion with commodity investments. An economic upswing can be reflected relatively directly with energy commodities and industrial metals. Gold, on the other hand, usually functions as a hedge position in the portfolio. As a haven and classic inflation protection, gold can provide a balance in the portfolio in various scenarios with its specific correlation properties and thus stabilise the overall performance. It is thus representative of the use of alternative investments as a portfolio hedge, which can also be achieved, for example, with the use of volatility investments.

Alternative investments have different objectives: uncorrelated sources of return, hedge positions or reflecting clear opinions on commodity prices.

Especially in defensive mandates, liquid alternative strategies that have comparable characteristics to classic bonds – a moderate but reliable return potential with manageable fluctuations – can be an alternative for part of the allocation to bonds. Conservative and reliable alternative strategies, such as market-neutral long/short strategies, defensive event-driven strategies or even convertible arbitrage strategies can provide an additional source of returns and possibly a more attractive portfolio addition compared to bonds. The low correlation to the rest of the portfolio also improves the risk-return characteristics of the portfolio, especially in times when bonds themselves are more prone to stronger fluctuations than in the past.

Conservative alternative investment strategies appear to make sense as a partial substitute for bonds in defensive mandates.

Special themes in the form of special segments play a role particularly in bonds: compared to traditional European government or covered bonds, catastrophe, Chinese or frontier market bonds have an above-average risk-reward profile. In equities, thematic investments indirectly play a certain role. The focus on structural growth in individual stock selection ensures a portfolio of stocks that benefit from attractive sector trends or company-specific trends in the medium and long term. However, a growing end-market alone is not enough – we invest in leading companies in their respective fields that are able to gain high market shares or, in some cases, even single-handedly create new markets through innovations and developments. Even if we do not invest directly in theme ETFs, our investment approach favours companies whose attractiveness is closely linked to the megatrends of digitalisation, demographic and social change, and the green revolution. Otherwise, thematic investments play an explicit role in our flexible, opportunistic multi-asset fund.

Theme investments play an important role on both the equity and bond sides.

9. What does sustainable investing mean in a multi-asset context?

With the increasing importance of sustainability for investors, the pressure on asset managers to include the integration of environmental, social and corporate governance factors in their investment process has increased enormously. We welcome this change and have integrated sustainability at various levels, with different ESG elements in our investment strategies. This is not completely new for us. We have been managing strategies with sustainability considerations for churches and foundations for more than a decade.

The trend towards sustainable investment has increased enormously – nothing new for us.

To rely purely on exclusion criteria or to link them rigidly with ESG ratings alone in a "best-in-class" approach, whereby only the supposedly most sustainable investment within a sector is selected on a relative basis, is in our view too short-sighted and is no longer in keeping with the times. True sustainable investing should also consider the impact of the investment and go deeper. For example, in collaboration with our own ESG Office, our portfolio managers actively engage in dialogue directly with companies and issuers to effect positive change. We are convinced that ESG factors need to be integrated into in-depth analyses to adequately assess risk and return.

A holistic, comprehensive ESG approach is necessary.

In addition to the intrinsic motivation for sustainable investing, financial aspects also play a not insignificant role: companies that neglect or even deliberately leave out environmental, social or governance factors in their business activities today expose themselves to reputational and the resulting economic risks. Taking ESG factors into account contributes positively to the risk-adjusted performance of a portfolio by improving portfolio quality and reducing ESG-specific risks.

Sustainable investing reduces portfolio risk.

We generally exclude equities and bonds from companies that do not meet our minimum ESG standards. The same applies to government bonds, with corresponding ESG criteria for countries. As part of our stock selection, E, S and G criteria are deeply integrated into the fundamental selection process and through our active dialogue with the invested companies and issuers we exert influence with the aim of achieving a positive impact.

When selecting active funds, in contrast to a classic ESG rating, we not only assess the securities contained in the portfolio but also examine the orientation of the product provider with regard to sustainability, examine the entire investment process and check the quality of the sustainability reporting. In this way, we aim 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, so the investor cannot actively influence it. Nevertheless, commodities play an important role in our multi-asset strategies. Agricultural commodities are generally excluded due to food price speculation considerations, yet we believe that other commodities are investable and not per se harmful from an ESG point of view. Industrial metals even play a key role regarding the shift towards renewable energies when it comes to the topics of climate protection, renewable power generation and e-mobility.

10. How do we control risks?

Risk control and management are a clear focus of our strategies.

Risk control and management are a clear focus of our strategies. However, as the name suggests, we are concerned with controlling and managing risk, not avoiding it. Our risk management starts with portfolio construction. Here, the interactions of the various investments with each other play an essential role. We continuously monitor our holdings and look at correlations, as well as various risk parameters such as the conditional value at risk (CVaR), at the portfolio and individual security level. If the risk contributions of investments are too high, their weightings are usually reduced. For us, however, risk management does not generally mean that exposures are reduced just because they lose value. The decisive factor is always our conviction regarding the investment. If this does not change, we may buy up rather than indiscriminately liquidate falling exposures. However, many risk ratios presuppose functioning markets; especially in crisis phases, these ratios often give an inadequate picture of the portfolio risk. Therefore, stress tests and scenario analyses also play an important role in our risk management.

Portfolio risk must fit our market view.

The portfolio risk must fit our market opinion and the portfolio sensitivities must fit our assessment of the most important risk factors in the capital markets. Central to this is continuous monitoring of portfolio risk. It is about understanding how a portfolio may behave in certain market phases and then reacting to them. To do this, we look at certain risk parameters. Simply put, based on historical data, how will the portfolio react if European equities fall by 1%, or if interest rates rise? This gives us a good idea of the risks that our portfolios are exposed to, and we can estimate the risk contribution of individual positions in relation to the overall portfolio risk to avoid excessive individual risks. The goal is to minimise the risks by means of a skilful selection of investment components with a corresponding return. However, it is also clear that we cannot and do not want to eliminate all risks, as there is no return without risk.

Positioning and sentiment analyses are important for us.

By means of various positioning and sentiment analyses, we also continuously try to deduce how susceptible the capital markets are to a correction or when a correction may be over. We thus also control the portfolio risk through our active allocation decisions. We usually monetise riskier, tactical ideas quickly. If we are optimistic and the risk premiums on the markets are attractive, an above-average risk in the portfolio makes sense.

Our risk management approach consists of three pillars.

Overall, our risk management approach consists of three pillars: portfolio construction, quota control of the various asset classes and the addition of tactical investments to reduce portfolio volatility. The last point includes, for example, opportunistically adding safe government bonds as a hedge if necessary, even though we find them unattractive in the long term due to low interest rates. Since we are primarily invested in high-growth, quality companies on the equity side over the long term, agile risk management in the multi-asset sector also involves balancing out such a strong portfolio bias from time to time, especially in market phases in which this investment style threatens to weaken. Depending on the strategy or mandate type, quota control, as well as tactical positioning, can also be carried out via derivatives.

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IMPORTANT NOTICE

Date 7 July 2021

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