Consideration of sustainability risks and principal adverse impacts (PAI) on sustainability factors[1]

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Definition of sustainable risks and -factors, as well as principal adverse impacts (PAI) on sustainability factors

In line with regulatory requirements, we consider sustainability risks to be events or conditions in the environmental, social, or corporate governance areas, the occurrence of which may have actual or potential principal adverse impacts on the value of an investment and thus on the net assets, financial position, results of operations, and reputation of a company. Sustainability risks can thus impact on all types of risk already known and reinforce them as additional influencing factors.

Sustainability factors, on the other hand, are to be understood as environmental, social and employee concerns, as well as respect for human rights and the fight against corruption and bribery.

Principal adverse impacts are those effects of investment decisions and investment/insurance advice that can have a negative impact on the sustainability factors.

[1] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (referred to hereinafter as the Sustainable Finance Disclosure Regulation), as well as delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards.

1. Consideration of sustainability risks and principal adverse impacts (PAI) on sustainability factors in our investment decision processes[2]

With regard to the investment of client funds by our Wealth and Asset Management, we consider the integration of sustainability risks and the principal adverse impacts on sustainability factors as a strategic issue that we address with priority. The importance of this issue in Wealth and Asset Management was underlined by the establishment of our ESG Office in 2018, which defines our ESG principles, supports their implementation and monitors compliance.

In Berenberg Wealth and Asset Management, the consideration of sustainability risks and principal adverse impacts on sustainability fac-tors is primarily based on the exclusion of certain activities documented in our ESG Exclusion Policy.

Sustainability risks as well as the principal adverse impacts on sustainability factors represent important decision-making criteria for the purchase and sale of securities. In this context, the integration of these criteria in investment selection helps our portfolio managers to holistically assess the return opportunities and risks of an investment by providing a further perspective in addition to the traditional financial view. The occurrence of a sustainability risk, similar to traditional financial risks, can have a significant negative impact on the value and resulting return of an investment.

In Wealth and Asset Management, sustainability risks and the principal adverse impacts on sustainability factors are considered in various asset classes (for example, equities, corporate bonds and government bonds). However, the approach can differ significantly between asset classes for various reasons – these include the availability, type and quality of data, as well as the stage of development of methodo-logical approaches or even market conditions.

In Wealth and Asset Management, we offer various ESG investment strategies with different degrees of sustainability consideration to meet a wide range of client needs across equities, bonds and multi-asset.

During the holding period of the investments, we monitor the development of sustainability risks, as well as the principal adverse im-pacts on sustainability factors via a regular automated check of compliance with binding ESG exclusion criteria in our portfolio man-agement systems. In addition, based on the ESG controversy analysis of our external ESG data provider, we identify companies that are directly involved in severe ESG controversies, as well as in ongoing very severe ESG controversies.

In the event of severe ESG controversies, we enter into an active dialog with the company (»engagement«) for selected investment strategies, both for existing investments and for new investments. The relevant controversy is analysed jointly by portfolio management, the ESG Office, and in direct exchange with the company. We then make a final investment decision based on our engagement and analysis.

In the event of ongoing very severe ESG controversies, we exclude these companies from investment. Such ESG controversies may include, but are not limited to, alleged violations of applicable law by companies, incidents such as environmental pollution, accidents, regulatory action or pending lawsuits.

[2] Disclosures pursuant to Article 3 (1) and Article 6 (2) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

To make our engagement with companies as effective as possible, we have defined a consistent approach in our Engagement Policy. We see engagement as a powerful tool to gain a better understanding of how companies deal with sustainability risks and the principal adverse impacts on sustainability factors. By engaging directly with companies, we can better consider sustainability risks and related measures in our investment decisions by obtaining further information in addition to internal analysis and sourcing external data.

In addition to engagement, we see the exercise of voting rights at company general meetings as an important tool to positively influence corporate governance structures in particular. By providing vote recommendations to the capital management company of our mutual funds, based on our Wealth and Asset Management principles for exercising voting rights, as well as through engagement, we aim to motivate and support companies to increasingly address sustainability risks and the principal adverse impacts on sustainability factors.

In all in-house investment funds, asset management strategies, and special mandates, a general exclusion applies to financial instru-ments with staple foods as underlying assets, as well as to selected other investments. In addition, we apply extended ESG exclusion criteria depending on the investment strategy. When applying the ESG exclusion criteria, companies and countries are excluded as soon as they violate at least one exclusion criterion.

With regard to updating the exclusion criteria, we have established a dedicated decision-making process. This involves the ESG Office, our portfolio managers, and the ESG Committee, which is the ESG governance and oversight body within Wealth and Asset Management and consists of Wealth and Asset Management staff members and executives. Some of our clients define their own criteria based on their ethical and moral beliefs. Therefore, in addition to the Berenberg Wealth and Asset Management ESG exclusion criteria, we also offer our clients the implementation of specific ESG requirements in the manage-ment of special mandates and funds.

All information on the Berenberg Wealth and Asset Management ESG policies and principles can be found on our homepage (www.berenberg.de/en/esg-publications).

[3] Restricted to equity investments in certain retail funds, by providing voting recommendations to the asset management company.

2. Consideration of sustainability risks and principal adverse impacts (PAI) on sustainability factors in our investment advisory services[4]

When providing investment advice, the focus is initially on the individual investment preferences of our clients. Since August 2022, these preferences can be supplemented in the investor profile by possible sustainable investment objectives, so-called sustainability preferences. To inquire about the sustainability preferences of our clients, we use the characteristics of the three different categories of financial instruments that are considered sustainable in the European Union:

- Financial instruments that include a minimum share of economic activities as defined by the Taxonomy Regulation,[5]
- Financial instruments that include a minimum proportion of sustainable investments as defined by the Disclosure Regulation,[6]
- Financial instruments that take into account the principal adverse impacts on sustainability factors.[7]

Financial instruments recommended as part of investment advice must be assessed with regard to the sustainability preferences of clients. Through the product disclosures of the individual financial instruments, which contain data on the three categories mentioned above, a quick and automated comparison between the product disclosures and the sustainability preferences of the client is possible. Through this process, any sustainability risks as well as the principal adverse impacts on sustainability factors are included and financial instruments that do not fit are excluded.

Independent of the wishes of individual clients, Berenberg has developed the Wealth and Asset Management ESG Exclusion Criteria to set its own minimum requirements for investments in sustainable financial products.

Consideration of sustainability risks and principal adverse impacts on sustainability factors is primarily based on the exclusion of certain activities documented in our ESG Exclusion Policy. Compliance with these ESG exclusion criteria is specified for securities in our investment advisory universe and stored in the system so that these can be taken into account as part of the investment advisory process. Thus, if desired, further sustainability risks and principal adverse impacts on sustainability factors can also be taken into account in addition to the sustainability preferences specified by the client.

The occurrence of a sustainability risk, similar to traditional financial risks, can have a material negative impact on the value and resulting return of an investment.

All information on the Berenberg Wealth and Asset Management ESG policies and principles can be found on our homepage (www.berenberg.de/en/esg-publications).

For further details on our funds declared as ESG-compliant, please refer to the section »Society« under »Sustainable cash investments, services and products that benefit society«.

[4] Disclosures pursuant to Article 3 (2) and Article 4 (5a) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.
[5] Financial instruments in accordance with Article 2 (7a) of Delegated Regulation (EU) 2017/565 as amended by Delegated Regulation (EU) 2021/1253, which invest in environ-mentally sustainable investments as defined in Article 2 (1) of Regulation (EU) 2020/852 of the European Parliament and of the Council.
[6] Financial instruments in accordance with Article 2 (7b) of Delegated Regulation (EU) 2017/565 as amended by Delegated Regulation (EU) 2021/1253, which invest in sustainable investments as defined in Article 2 (17) of Regulation (EU) 2019/2088 of the European Parliament and of the Council.
[7] Financial instruments in accordance with Article 2 (7c) of Delegated Regulation (EU) 2017/565 as amended by Delegated Regulation (EU) 2021/1253, which consider principal adverse impacts on sustainability factors.

3. Consideration of sustainability risks and principal adverse impacts (PAI) on sustainability factors in our insurance advisory services[8]

In Berenberg Wealth and Asset Management, we are limited to the sale of third-party products as part of our insurance advisory services.

The sustainability risks are queried directly via the third-party product partner's platform and taken into account accordingly on the system side when selecting suitable insurance products.

The occurrence of a sustainability risk, similar to traditional financial risks, can have a material negative impact on the value and result-ing return of an investment.

All relevant information to consider sustainability risks and the principal adverse impacts on sustainability factors will be provided by the respective third party product partner.

4. Change history[9]

Since this is the first time the sustainability risks have been published in a separate document, there are no changes.

[8] Disclosures pursuant to Article 3 (2) and Article 4 (5a) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.
[9] Disclosures pursuant to Article 12 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

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