BERENBERG UK ESG REVIEW

Q2 2021 ESG UPDATE

The rapid social and political changes taking place have pushed environmental, social and governance issues right to the heart of the investment analysis process. COVID-19 has brought 'social' factors into prominence alongside 'environmental' and 'governance' in that large elements of the population now want the companies they invest in to "do good". However, it is more than this. Companies with strong ESG impacts and policies are increasingly being recognised as being sustainable in a business sense. By this we mean, that they are able to retain the "licence to generate profits", as they positively contribute to meeting societies' wider goals.

ESG is a relatively new science – as a result there are no globally accepted standards. Hence, from an investor perspective, there can appear to be a bewildering array of rating systems, initiatives and, unfortunately, a lot of corporate green washing.

To help investors navigate their way through these issues, and to enable them to stay up to date with the latest advances and thinking, our ESG Equity Research team produce a weekly newsletter. From this we have extracted some interesting news stories and developments over the quarter.

In addition, this quarter we have enclosed a 'Spotlight - Equities' article written by our Equity Fund Management team on '**The return trap in renewable energy investments**' as well as our '**Active Ownership Report 2020'**.

IN A NUTSHELL

- TPI State of Transition Report 2021
- Efforts underway on 'Nature 100+' collective biodiversity engagement
- Why we need a gender advisor on SAGE

TPI State of Transition Report 2021 (Transition Pathway Initiative)

The Transition Pathway Initiative's State of Transition Report 2021 shows **encouraging momentum behind net zero targets** as the number of companies with genuine targets, covering their most material emissions, has more than doubled. However, the **increase is only from 14 to 35 of 292 companies,** assessed on carbon performance. Many more have net zero targets, but they are too limited in scope.

The report paints a fairly pessimistic picture of progress elsewhere, with **only 15% of companies' carbon performance aligning with the below 2°C benchmark** in 2050, while more than 60% either do not align to any benchmark or provide insufficient disclosure.

The average Management Quality Level, meanwhile, stands at 2.6 (out of 4), meaning the **typical company sits between "building capacity on climate change" and "integrating climate change into operational decision-making"**. The report finds a clear correlation between management quality and carbon performance as those at level 4 in 2017 reduced emissions intensity by an average of 5.3% between 2017 and 2019, almost 4x more than level 0-3 companies.

The assessment identified 19 leaders, predominantly utilities, and 49 laggards, mostly oil & gas firms and airlines. The report makes four recommendations for companies: (i) **commit to achieving net zero by 2050 or sooner** covering material emissions; (ii) **set short, medium and long-term targets** aligning with the net zero commitment; (iii) **publish the emission reduction strategy** and capex plans and (iv) **provide disclosure showing performance** against targets.

The TPI focuses on the highest emitting sectors and largest public companies. This report assessed 401 companies on management quality and 292 on carbon performance across 16 business sectors in the energy, transport, industrials/materials, consumer goods and consumers services industries.

Berenberg view

Some good and bad news from this report. On the positive side, **momentum is gathering behind net zero ambitions**, but, on the other hand, it is from a pretty low base and **many companies continue to look at decarbonisation with too narrow a lens**. In addition, while efforts to lower environmental impact are being made, the average Management Quality Level score demonstrates much of the market is **still in the strategy development phase** and not quite there when it comes to delivering considerable emission reductions.

The geographical breakdown of results illustrate that European **companies are comfortably ahead of North American firms**, with those in other geographies a long way back. This shows that while there may be a lot of positive news over here, **more needs to be done globally if we are to reach net zero by 2050**.

However for net zero commitments to be credible they **need to cover major scope 3 emissions,** not just operations, and **incorporate medium-term targets**, preferably verified by the Science Based Targets Initiative. It would be good **to see detailed roadmaps to net zero**, although examples of this remain relatively rare at present.

Efforts underway on 'Nature 100+' collective biodiversity engagement
(Responsible Investor)

The Finance for Biodiversity Pledge Foundation, which currently has 37 investor signatories, is **working to establish a collective engagement effort on biodiversity akin to Climate Action 100+**, an investor-led initiative to pressure the world's largest polluters to reduce their emissions.

Pledge signatories are already expected to collaborate, engage, assess, set targets and report on biodiversity by 2024 and collectively engage with companies on 'nature positive' from next year. However, the potential "Nature 100+ collective engagement" initiative would formalise the approach by **determining the most material sectors for engagement and the most material issues, as well as identifying 100 companies to engage with**. The plans also suggest an ambition to carry out 20-100 collective engagements.

These plans fit into a wider **trend of the finance industry aiming to do more to support biodiversity**. A World Bank report last year suggested the idea of a collective investor initiative targeting the most nature damaging corporates, while the last 36 months has seen the launch of the Taskforce on Nature-related Financial Disclosures and the Partnership for Biodiversity Accounting Financials.

Berenberg view

Biodiversity has been a hot topic during the start of 2021, with the launch of the Prince of Wales' Terra Carta and the publication of the Dasgupta Review. As such, it is encouraging to see that talk on the subject is leading to significant steps towards action.

Although half of the world's GDP is dependent on nature, there are a **limited number of companies directly enhancing biodiversity with their revenue generating activities**. Therefore, one of the main way's investors can support biodiversity is to **buy stocks that are leaders in improving biodiversity in their operations and supply chain, and/or engage with holdings to take greater action**.

Climate Action 100+ has had significant success in pushing oil and utilities companies to take greater action on climate change. As such, it appears that a well-defined collective engagement initiative on biodiversity could have a significant impact. Thus, whether it is Nature 100+ or another initiative, we anticipate that **pressure on companies that damage biodiversity will increase considerably** over the coming years.

Why we need a gender advisor on SAGE
(LSE Public Policy Review)

Researchers Clare Wenham and Asha Herten-Crabb from the LSE have claimed that "**The UK government has largely failed to consider gender in its COVID-19 response, despite the many and varied differential impacts of policy interventions on men and women"** in a new LSE public policy review.

The report asserts that throughout the pandemic, men and women have been affected in **'distinct ways'**. Whilst men have experienced a greater infection rate, women have been **disproportionately affected by government policies** aimed at

controlling the spread of the virus. **Women make up 77% and 90% of the NHS and social care workforce** respectively. These frontline jobs are described as **'gruelling'** in the report and **'impose a mental toll'**.

The report also stated that women taken on the extra burden of social changes such as schools and offices closing, leading to additional unpaid labour of household chores. Men's unpaid labour has also increased, however **women have seen a greater increase and faced the burden of "what needs to happen to keep everyone alive" rather than "playing games or learning with children"**. The secondary effects of government restrictions were noted by SAGE as 'increased domestic abuse, mental health and cardiovascular problems', with domestic abuse disproportionately affecting women, but there was no explicit consideration of these differential effects between genders.

The research **analysed 73 SAGE meeting minutes** and background documents between **22 January to 22 December 2020** searching for "explicit reference to sex and/or gender" and "gendered issues and where implications for gender had not been acknowledged". The report concluded that gendered dynamics of issues were absent. **13/73 SAGE minutes used explicit gendered terminology only referencing sex-related issues** e.g. "more men being admitted to hospital" with the unacknowledged gender implications defined into the categories schools and childcare, sectors of the economy, health and social care workers and secondary effects of NPIs.

SAGE members are selected based on the issue at hand with COVID-19 being deemed an "**epidemiological**" rather than a "social, political and economic" emergency. The researchers suggest **reframing emergencies more holistically** and **include gender advisors** to take a gendered perspective and "reduce the downstream gendered impacts". Further it's not necessarily about simply increasing the proportion of women but selecting an appropriate gender advisor e.g. advisor in Black, Asian and Minority Ethnic integration can help.

Berenberg view

The pandemic has undoubtedly had a disproportionate impact on women. A recent report by the Women and Equality Committee on the gendered economic impact of the coronavirus maintain that government policies in the UK have been **"skewed towards men"**. In addition, this article illustrates how the pandemic has highlighted the urgent need to develop policy across the US care economy. However, this is not a new phenomenon, as with many social issues, the crisis has **deepened already existing inequalities** such as the gender pay gap, amount of women working part-time on temporary contracts and more time being spent on household chores and children.

The interesting suggestion from this report is that it **calls for gender advisors rather than focusing only on increasing the representation of women in leadership positions**. This proposal is relevant for corporates as well as governments or international organisations such as SAGE. By having a gender advisor, it is their role to ensure that the needs of different genders are considered and reflected in policies.

IMPORTANT INFORMATION

The return trap in renewable energy investments

In the latest edition of our *Insights* **(Megatrends in our portfolios – Zooming in on a key component of structural growth)** series, we identified the Green Revolution as one of the three most important structural megatrends driving the global equity universe over the next decade and beyond. The most significant part of this revolution is the shift away from fossil fuels and towards net zero emissions. Of course, renewable energy has an important role to play here. The battle against Climate Change should thus provide a lasting growth tailwind to the sector. And yet, we are hardly invested in the space. In this *Spotlight*, we want to explain to you, why we see so few attractive investment opportunities in renewables.

2020 was a winning year for renewable energies. Driven by political support from all corners of the world (e.g. the EU's Green Deal, the Chinese new five-year plan and the election promises of the U.S. Democrats) and ever-increasing demand among investors, shares from directly profiting and related industries experienced an impressive bull market. There are numerous stocks from the wind power, solar or hydro-fuel industries that have gained hundreds in percent over the past year. But perhaps it's enough to simply mention that the iShares Global Clean Energy ETF - a basket of stocks in this segment - gained nearly 140% in 2020. For the MSCI World, it was comparatively only 13% (incidentally still a remarkable result for us, especially for a Corona year).

Fig. 1: Performance in 12-month periods

	05/20 – 05/21	05/19 – 05/20	05/18 – 05/19	05/17 – 05/18	05/16 – 05/17	2020
iShares Global Clean Energy ETF	93,5%	21,1%	5,6%	14,8%	3,4%	**141,8%**
MSCI World Index	41,5%	7,4%	0,3%	12,2%	17,1%	**16,5%**

Source: Bloomberg, in USD

This extremely positive price development was interpreted by many as a signal that the trend towards renewable energies and related shares should also be reflected to a greater extent in a quality growth portfolio. This is a question we are being asked more and more frequently, and in this *Spotlight*, we would like to explain **why we are invested comparatively little in this market segment.**

Across the Berenberg Equity platform, we focus on companies that benefit from structural growth trends. One of these trends is certainly also the shift towards renewable energy. We are convinced that the ever-increasing pressure to combat climate change will also be reflected in durable growth rates. This trend is supported not only by governments, but also by companies, which are spending more than ever to be well positioned in these newly emerging markets. This is leading to technological innovation, broader product ranges and lower costs. In addition, there is an ever-growing consumer demand for sustainable supply. Through a positive interaction, these various drivers accelerate each other, ensuring sustained growth rates.

The following publication is part of the Berenberg Funds and Solutions series:

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

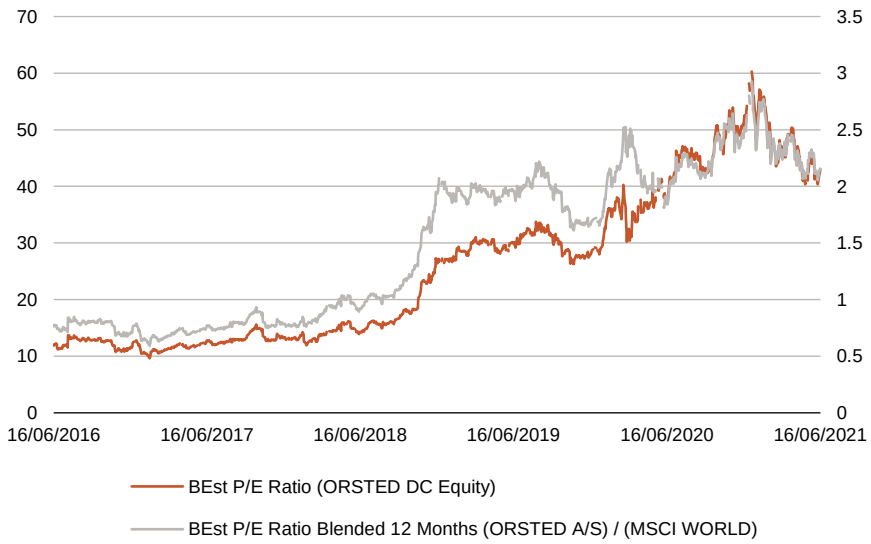
***Spotlight** offers insights into the Berenberg product universe and highlights key topics in connection with current market developments.*

However, the structural trend is not the only decisive factor for us. Firstly, growth must also be profitable and result in attractive returns on capital. Secondly, everything has its price. As investors in high-quality growth companies, we are used to higher valuations. But the valuation must always be in proportion to the profitability and sustainability of the growth.

We only invest in companies that deliver exceptional returns on capital over long periods of time. This is only possible for companies that benefit from strong competitive advantages. Not every company that is exposed to a structural growth trend can fulfil this criterion. There are even entire industries that are growing strongly, but in which no company can stand out from the crowd, but rather the cake must be divided among many.

A good example of this is the business of operating renewable electricity generation units. Renewable energy is a market that has shown enormous growth rates in recent years. However, this growth is increasingly accompanied by falling returns. In 2017, the world's largest operator of offshore wind farms, the Danish company **Orsted**, was still planning on annual returns of close to 10% for new wind projects in the period up to 2025. Over the last few years, Orsted has had to further reduce its target returns to slightly above mid single-digit percentages by 2027(source: Orsted). Its German competitor, **RWE**, also estimates that only 5.5-8.5% returns are possible in developed wind markets going forward. A similar picture can be sketched in the market for solar projects in Europe. What is the reason for this? **The attractive business has attracted a lot of competition.** In addition to the traditional operators, there are, for example, many institutional investors such as insurers and pension funds, which are increasingly looking for alternative investment opportunities in a persistently low interest rate environment. In addition, there have recently been a number of large oil companies that hope the projects will help them achieve their long-term climate targets. In the absence of significant competitive advantages, Orsted, despite its size, has no choice but to bid and settle for lower returns. This is just one example, but it reflects the competitive environment well and explains why we are treading carefully here.

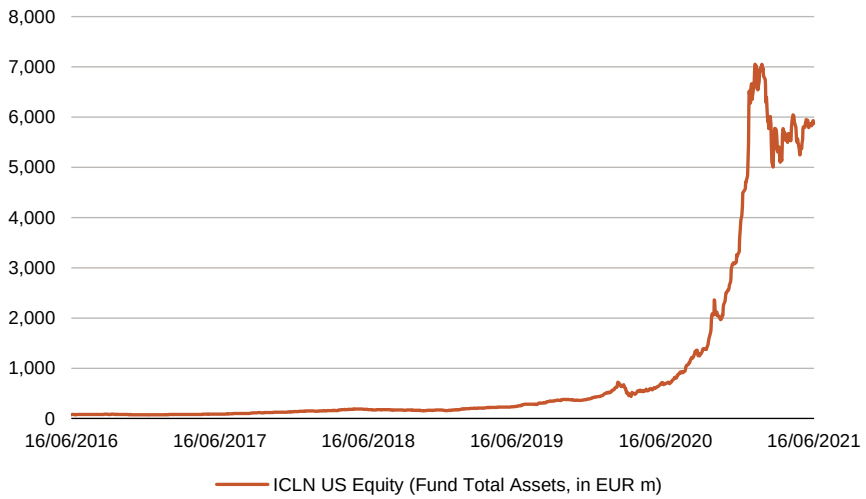
Fig. 2: Development of the Orsted price-earnings ratio



Source: Bloomberg, 16.06.2021.

Another reason for our reluctance can be traced back to valuations in the market. Let's stay with the example of Orsted. As already mentioned, the company has had to significantly lower its expectations for project returns in recent years. Over the same period, however, the stock's valuation has moved in the opposite direction. **Indeed, since 2018, the twelve-month forward looking P/E ratio has risen from 15x to 40x most recently (it was as high as 60x at the beginning of the year).** Over the same period, the valuation of the MSCI World rose from 14x to just under 18x. Thus, there is now a relative valuation difference of more than 120%, which ultimately also explains a large part of the price development (source: Bloomberg). The same analysis with the same result can be repeated for any number of other stocks from this segment.

Fig. 3: Total assets of the iShares Global Clean Energy ETF



Source: Bloomberg, 16.06.2021.

This raises the following question: What actually leads to this significant premium expansion of renewable energy companies? **In our opinion, it is primarily investor capital flows that are driving valuations higher.** For example, ESG funds' assets under management again saw rapid inflows last year, leaving them past the remarkable $1.5 trillion mark, according to Morningstar. Just five years ago, the figure was just $500 billion. Add to that ESG ETFs, which, according to Bloomberg, saw their assets under management increase by another $89 billion in 2020 alone. Of course, ETFs that focus explicitly on renewable energy, such as the aforementioned iShares Global Clean Energy ETF, are also benefiting from this trend. **This strong demand for rules-based mutual funds means that the underlying stocks are subject to continuous buying pressure.** Should this change, as we have seen in the first quarter of 2021, prices may be exposed to a rubber band effect in the opposite direction. To be invested at that point in time, should be eagerly avoided.

While we are currently struggling with investments around the trend towards renewable energies, there are other market segments exposed to the Green Revolution that we do find highly attractive.

The electrification of cars is one such trends and, driven by regulatory support, technological progress, and growing consumer acceptance, it is rapidly gaining momentum. While it is still difficult to tell which carmaker will ultimately win the race, there

are certainly some beneficiaries in the value chain that are worth considering. One example is the German semiconductor manufacturer **Infineon**. Semiconductors are essential for electric vehicles. Compared to an internal combustion engine, an electric vehicle requires four to five times more semiconductors. Despite the energy-intensive processes used to produce semiconductors, Infineon manages to save around 56 million tons of CO_2 equivalent (ratio of approx. 1:35, source: Infineon) with the 1.61 million tons of CO_2 equivalent it emits itself with its products and the final application. With more than 40 years of experience in automotive semiconductors and a particularly strong market position in critical power semiconductors (2x higher market share than the global number 2), Infineon is well positioned to benefit from the strong growth. As a result, Infineon has been able to generate returns on capital employed well into double digits over the past years.

Our conclusion: The trend towards more sustainability and renewable energies remains exciting and should generate attractive growth rates in the long term. However, this growth must also be reflected in attractive returns on capital and positive cash flows. This requires an attractive competitive environment and high barriers to entry. In addition, the opportunities that are identified also need to trade on attractive valuations. Consequently, we don't want to be the last to jump on the metaphorical bandwagon. This also explains why we have so far held back on investments in the renewable energy sector in the Berenberg Sustainable World Equities Fund. The fund concept is specifically designed to invest in companies that offer solutions to global challenges, such as climate change, of course. However, our quality and valuation criteria must also be met. For this reason, this topic currently accounts for only a small weighting in the portfolio. If something was to change about their positioning or valuation, we would be ready to act and take advantage of these opportunities.

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BERENBERG WEALTH AND ASSET MANAGEMENT

ACTIVE OWNERSHIP REPORT 2020

March 2021

ESG Office

Our independent ESG Office is responsible for the ESG policy, strategy, investment positioning, integration, product offering and innovation for Berenberg's Wealth and Asset Management (WAM) division.

Berenberg

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Foreword

Actively working together with companies and issuers as an investor – for us, this is an essential part of our investment and our ESG approach.

We consider ESG aspects to be one of the key factors in our investment decision-making. ESG factors are an integral component in the analysis of risk and return. Ideally, we would like to invest indefinitely. This is only possible if companies and issuers are managed well and with integrity in a socially and environmentally responsible manner. It is rarely the case for the companies and issuers we invest in to have already achieved perfection. What is important for us is the direction of travel. We work proactively with the management teams of companies and issuers, monitor how controversial topics are dealt with over time and motivate them to take on their responsibility towards the environment and society.

Active engagement via direct and open dialogue with companies and issuers allows us to gain valuable insights and to encourage more transparency – before and after the investment decision. Additionally, proxy voting, through the provision of vote recommendations to our administrator, is an effective way to communicate our views concerning good corporate governance and other ESG aspects as well as to directly and positively influence corporate policies.

While engagement with companies has long been an integral part of our investment approach, we have been steadily expanding our activities around direct dialogue on ESG topics over recent years – this is how our "Active Ownership" approach has emerged. In 2019, we provided vote recommendations for our German holdings for the first time; in 2020, we provided recommendations for holdings in 15 different countries.

In order to meet our responsibilities regarding transparency, we are publicly reporting on our approach and related activities for the first time this year, and will update this report annually in the future.

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ESG at Berenberg

ESG: our approach

We believe that taking ESG factors into account needs to go hand in hand with fundamental analysis in order to adequately assess risk and return. We incorporate ESG factors by analysing ESG risks and opportunities using our own research and third-party providers. Furthermore, we proactively engage with issuers and companies' management teams and have open conversations regarding their ESG capabilities. Internally, we discuss ESG issues openly, building on our culture of supportive collaboration among all teams. This open dialogue among our investment and ESG professionals allows us to integrate their industry experience and knowledge into our ESG approach and to continuously further develop and strengthen it.

Active Ownership: our view

By excluding companies and countries that do not meet our ESG criteria, we aim to explicitly avoid investments with a negative impact on the environment or society. Building on this, we actively incorporate ESG opportunities and ESG risks into our investment process through extensive analysis and direct contact with companies. Engagement and proxy voting are two key components of this process.

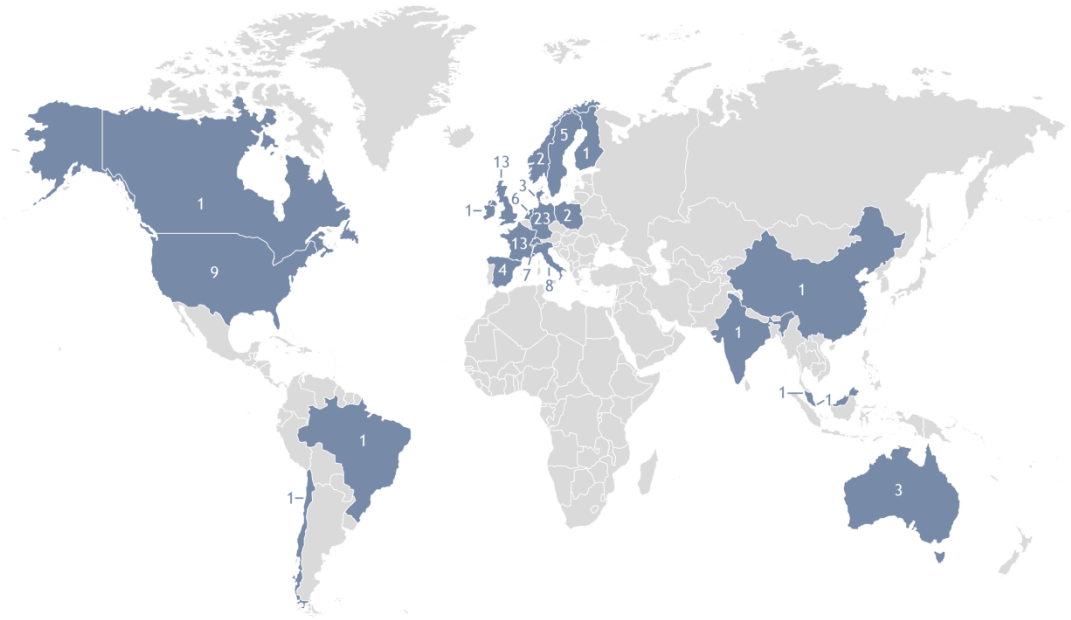
We view the exercise of voting rights as an important instrument for influencing companies with regard to corporate governance structures and at the same time strengthening shareholder rights. Our voting recommendations are also intended to encourage companies to operate sustainably in the long term.

Engagement enables us to gain deep insights into the behaviour, strategies and processes of companies and issuers. In addition, we can address relevant and critical improvements and increase transparency. In this way, we can help as an active investor to improve the sustainability profile of companies in the long term and reduce risks. Therefore, the engagement process and its results are central elements of our investment decisions and the basis of long-term, successful investment in companies.

Active Ownership at Berenberg

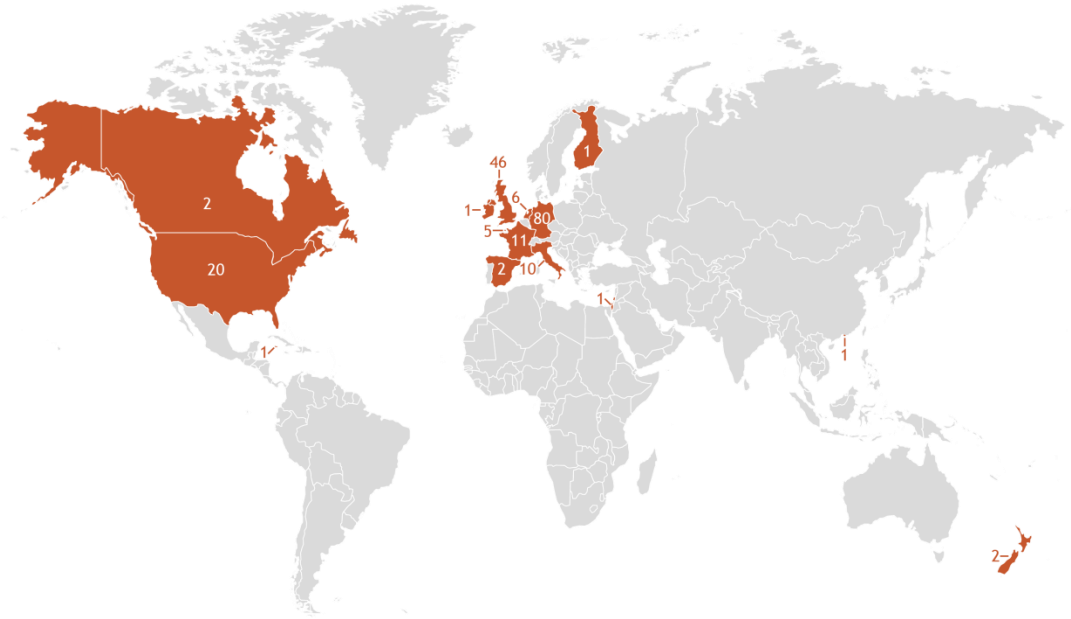
Overview of 2020

Number of engagement activities in 2020 by country



Total: 111
Germany: 23
UK: 13
US: 9
France: 13
Italy: 8
Switzerland: 7
Netherlands: 6
Sweden: 5
Luxemburg: 4
Spain: 4
Australia: 3
Poland: 2
Brazil: 1
Canada: 1
Chile: 1
China: 1
Denmark: 1
Finland: 1
India: 1
Ireland: 1
Malaysia: 1
Singapore: 1

Number of company meetings for which we provided vote recommendations in 2020, by country



Total: 189
Germany: 80
UK: 46
US: 20
France: 11
Italy: 10
Netherlands: 6
Caymans: 5
New Zealand: 2
Spain: 2
Canada: 2
Finland: 1
Hong Kong: 1
Ireland: 1
Jersey: 1
Israel: 1

Engagement at Berenberg

Our approach

Engagement with companies and issuers has been an integral part of our investment process for many years. We believe that clear targets and milestones are needed for effective engagement. Our publicly available Engagement Policy provides guidelines for active dialogue with companies and enables us to measure progress.

Our engagement process

Research → Prioritization → Engagement → Post Engagement

1 **Research** on companies/issuers	Portfolio Managers and the ESG Office conduct research on the companies on various issues affecting the sustainability of the companies/issuers.
2 **Prioritization** of engagements	Besides severe ESG controversies further material ESG risks and opportunities are considered including e.g. the positive impact a company/issuer is delivering.
3 **Engagement** with company/issuer	The direct dialogue is conducted by the portfolio management with support from the ESG Office using different methods such as one-on-one meetings, via e-mail, in group meetings or in telephone conversations.
4 **Post Engagement** strategies/decisions	Based on the feedback received during the engagement we decide on next steps.

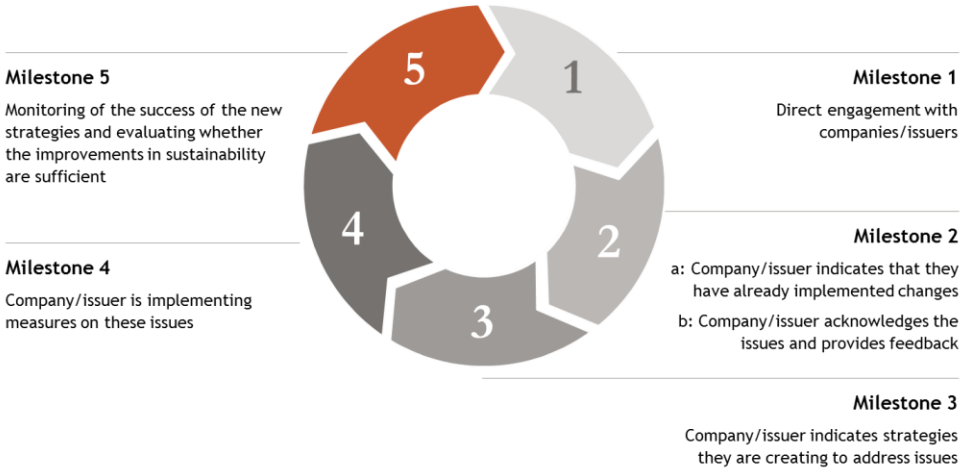
The motivations for starting an engagement can be manifold. On the one hand, we hope to obtain relevant information for our investment decisions; on the other, we would like to have a positive impact on companies and issuers, be it in terms of their reporting or their activities and strategies on material ESG issues. Furthermore, as part of our ESG controversy monitoring, we enter into active dialogue with companies that are associated with severe ESG controversies (see page 8). Critical aspects that come up in the course of exercising voting rights can also prompt engagement. As part of the investment approach of our impact funds and strategies, we work with companies and issuers where we are not able to identify all impact-relevant metrics or where we require further information with regards to the impact of their products or services on the environment and society.

You can find further information in our Berenberg WAM Engagement Policy at berenberg.de/en/esg.

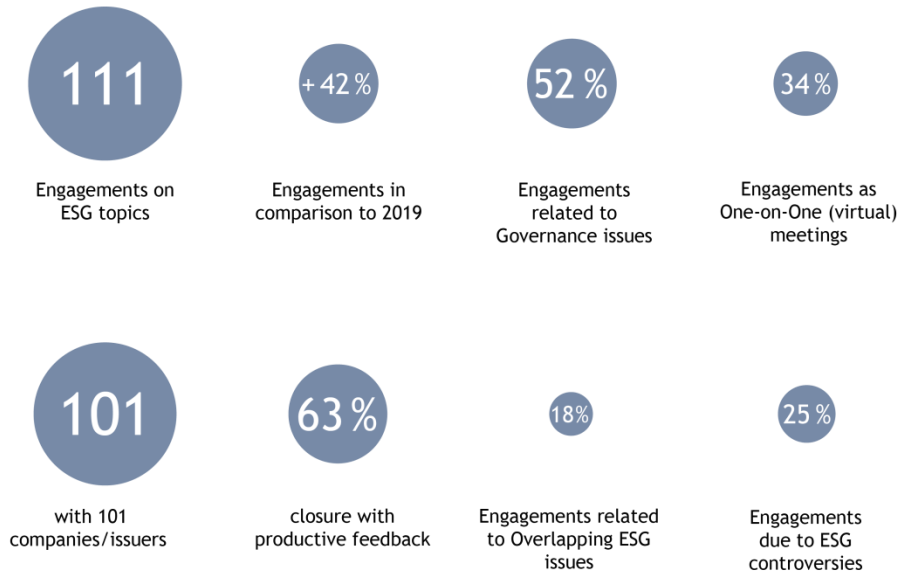
Our progress

In 2020 we published our Engagement Policy and further standardised our engagement process. Furthermore, we conducted our first collaborative engagement – an important and effective instrument, which we want to further integrate into our Active Ownership approach in the future.

Our engagement milestones



Engagement in 2020: overview[1]

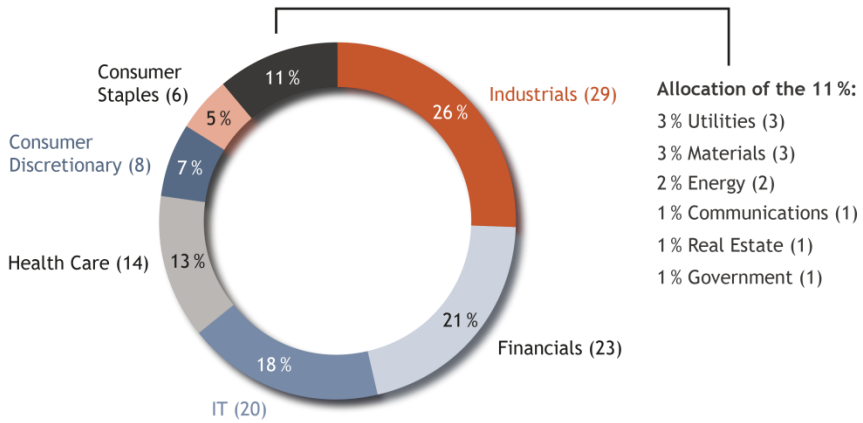


We are continuously expanding our engagement approach to increase not only the number but also the depth of dialogues. In particular, we increased the number of engagements in 2020 compared to the previous year through increased active exchanges with bond issuers and engagements as part of our proxy voting activities.

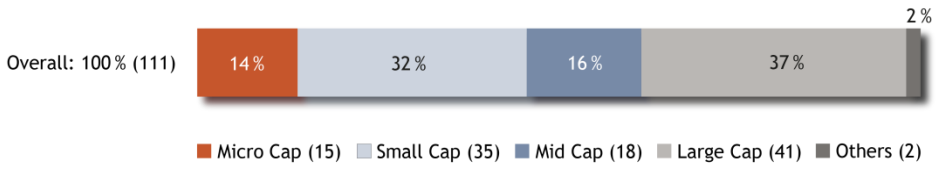
[1] The difference between the total number of engagements (111) and the total number of companies/issuers with which we conducted engagement (101) is due to repeated engagements with specific companies on different topics.

Engagements in 2020

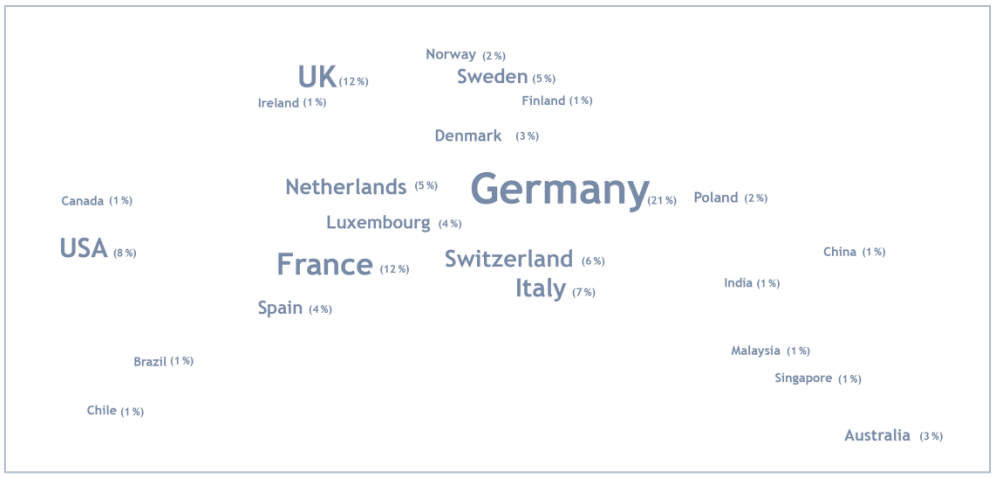
Engagements by sector



Engagements by company size[2]

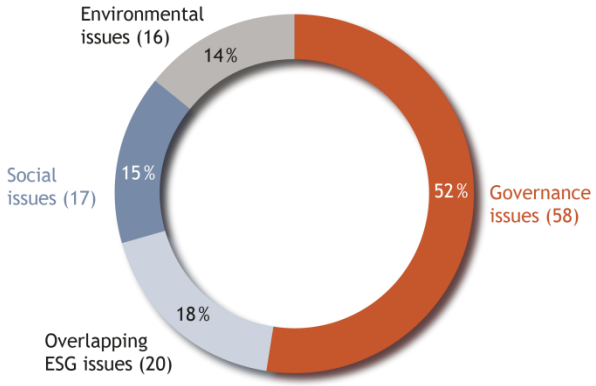


Engagements by country

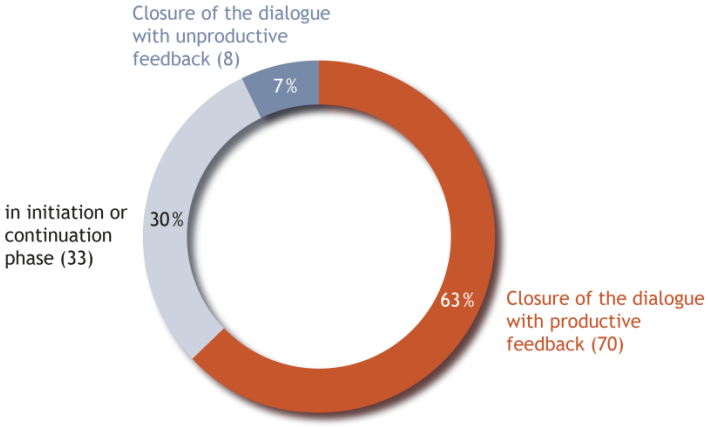


[2] "Others" includes companies/issuers without market capitalisation such as state-owned companies.

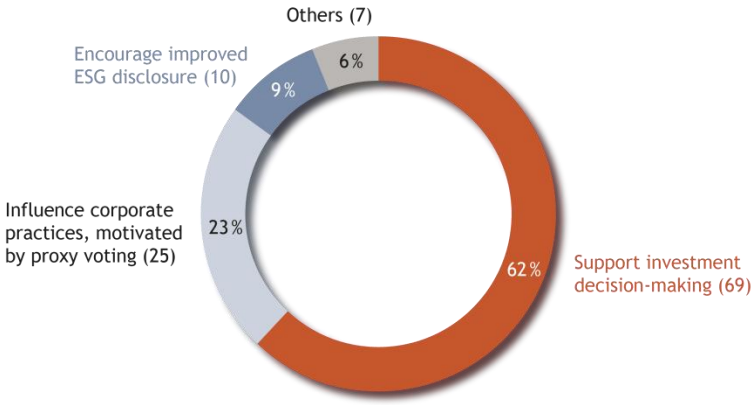
Engagements by topic



Engagements by motivation



Engagements by status



We incorporate our evaluation of the engagement and the feedback we received into our investment decisions. Based on this, we decide whether to remain invested and/or monitor changes as well as follow up on or sell the investment or even exclude it from the investment universe.

Engagement as an active risk-management tool

The integration of ESG factors helps our portfolio managers to better analyse risk and return. Through our ESG controversy monitoring we monitor investments in companies based on MSCI ESG data and can identify controversies and associated risks when they arise. Such ESG controversies include alleged company violations of existing laws, single incidents such as environmental pollution, accidents, regulatory action, or allegations linked to, for example, health and safety fines or related lawsuits. We follow up on any indications that show a severely high level of controversy and, potentially as a result, an increased level of risk.

The severity of a controversy is evaluated based on a flag/traffic-light system. A green or yellow flag indicates that a company is linked to no or only moderate controversies. An orange flag indicates severe and a red flag very severe controversies. Investments in companies with a red flag are excluded in our ESG-dedicated and ESG-integrated products and strategies. We actively engage companies with serious controversies (orange flag) about the controversies, both in the case of existing holdings and in the case of potential new investments. In this way, we analyse the controversies and give the company the opportunity to take a stand. After completion of the engagement, we make our final investment decision, depending on the outcome and success of the engagement.

I. Flagging	II. Active engagement	III. Assessment and follow-up
Minor controversies Moderate controversies	No analysis of controversies	Not excluded
Severe controversies	If controversies arise, we undertake further research and, if applicable, we start active engagement with the relevant companies.	Discussion and assessment if position is removed from the portfolio. Ongoing monitoring of investments in the portfolio.
Very severe controversies	No analysis of controversies	Excluded

Engagement: case studies

Environment: green bond issuance and framework

Company field: Real estate financing

Country: Germany

Action: One-on-one meetings

Outcome: Negative

The company is a leading European specialist bank for commercial real estate. The specific motivation for engagement was the company's first issuance of a green bond, which had the objective of financing sustainable and energy-efficient buildings in order to reduce the negative impact of buildings on the environment.

The real estate sector has a particularly high carbon and ecological footprint. Specifically older and technically outdated buildings contribute to environmental damage and the high carbon emissions of the sector. Thus, the development of new energy-efficient buildings and the refurbishment of existing buildings require large amounts of investment for the sector to contribute to the achievement of the Paris Agreement's goals and green bonds play an increasingly important role in financing these investments.

Green bonds, with their goal of directly financing projects with a positive ecological impact, are a relevant instrument in our ESG-dedicated fixed income and multi asset funds and strategies.

Action

We are in regular contact with the company's management. Even before the company's first green bond issuance, we had already discussed this topic. In order to assess whether this particular green bond issuance of the company was consistent with our ESG and impact approach, we analysed bond-related information and conducted a one-on-one meeting with the company's management. In the course of this exchange we, besides discussing other topics, specifically voiced criticism and proposed changes regarding the following aspects.

- *The use of funds*: The company's green nond framework defined sustainable and energy-efficient buildings that would be in scope of the green nond proceeds. Although several criteria were applied for eligibility, we concluded that they were – to a certain extent – less strict than the criteria of several peers and other green bonds in the real estate segment.
- *The look-back period*: No maximum look-back period was defined within the framework, which indicates the maximum age of a project to be refinanced. This could potentially increase the risk that the green bond proceeds would be allocated to historical loans/financed buildings that by chance fit the framework's criteria but could be several years old and were not intended for this purpose. We see a clearly defined maximum look-back period as an important component of a green bond in order to po-

tentially achieve a future positive impact and to improve the prospect of additionality.

In addition, we analysed the company's overall sustainability strategy and found that, while recognising the importance of sustainability considerations, the company had, as of that time, not yet further formalised or integrated them into its strategy. The efforts to integrate sustainability criteria in the lending process appeared fairly vague and not properly formalised, and no specific targets for new business had been defined with regards to the sustainability and energy-efficiency of newly financed buildings.

Outcome

We had an open and transparent exchange with the company's management. However, we concluded that for the time being the issued green nond was not fully compatible with our ESG and, especially, impact approach and was thus not a fitting investment for relevant strategies. We will continue to have regular exchanges with the company and monitor further developments in terms of its green bond framework and future issuances, as well as its sustainability strategy.

Social: discrimination or diversity issues?

Company field: Technology

Country: US

Action: One-on-one meeting

Outcome: Positive

The company is a leading developer of software and consumer electronics, among other products. Diversity and inclusion have been long-standing issues for the global tech industry, and many companies have been adjusting their strategies and developing initiatives in order to tackle them. However, these have not yet comprehensively delivered the intended results. Due to their ever-growing importance in the global economy and their far-reaching value chains, global tech companies are in a position to make an important contribution in the pursuit for more diverse and inclusive workplaces. Furthermore, we view this as an important aspect for attracting talented employees in the future.

Through our ESG controversy monitoring (see page 8), we noted that the company was connected with a severe controversy regarding discrimination & workforce diversity. In particular, the local authority found the company to be in violation of its regulations regarding equal employment opportunities, based on analysis of the company's hiring practices.

Action

We internally analysed the alleged controversy and the MSCI ESG criticism, based on information provided by MSCI ESG and other data sources. Following internal analysis by portfolio management and the ESG Office, we initiated direct engagement with the company and received a response without delay. In a follow-up call, we received transparent insights into the company's view of the alleged controversy and the broader issues of diversity and inclusion, as well as into the corporate strategy for tackling them.

Outcome

During our transparent and open exchange, the company recognized the problems faced both by the industry and by itself, as well as the fact that previous initiatives and actions had not yet delivered the intended results. The company described the current status of initiatives, as well as past and future actions, and assured us of its strong commitment to diversity, inclusion and non-discrimination. Current actions include broadening the recruiting scope/talent pool by, for example, opening up a tech platform/centre in a new location and further developing recruiter training. We are invested in the company and will continue to monitor the described issues, as well as the success of the company's various initiatives and strategies.

Governance: allegations of price fixing

Company field: Salmon farming

Country: Norway

Action: Email exchange

Outcome: Negative

The company is a leading producer of seafood, with a focus on salmon farming. Companies in the salmon farming industry face a variety of issues such as price wars and strengthening environmental regulations, as well as risks from climate change, such as warming sea temperatures, while at the same time playing a potentially key role in developing a sustainable protein sector.

The company was subject to an investigation by the regulator regarding alleged price-fixing, including increasing and stabilising the spot price in the salmon market, as well as other possible violations of antitrust rules.

Action

While the controversy was assessed as moderate by MSCI ESG, we viewed the investigation into alleged price-fixing as potentially very critical and thus decided to engage with the company.

In order to obtain a better understanding of the allegation and the company's perspective, the responsible portfolio manager prepared a comprehensive set of questions and shared it with a company representative. Included questions concerned the specific allegation, the potential effects on the company's business and finances, relations to other involved parties and the strategy for preventing such controversies in the future.

We held exchanges with the company over the course of a few weeks in written form.

Outcome

While we received answers on the questions that we raised in our initial questionnaire, as well as in a follow-up, the content and detail of the disclosures were not sufficient to clear up the controversy and did not convince us that the company had sufficient control mechanisms in place to prevent the recurrence of such incidents.

Portfolio management, in an exchange with the ESG Office, made the decision to close this engagement and sell the position.

Proxy voting at Berenberg

Our approach

In 2019 we published our Berenberg WAM Proxy Voting Policy, which represents our philosophy and beliefs regarding ESG issues in companies. On the basis of this policy we are able to provide our vote recommendations. Our policy is regularly updated and considers current corporate governance standards, ecological and social issues, industry standards and the proxy decision's potential impact on the investment.

Key areas of our Proxy Voting Policy

1 Board-related issues	5 Other operational and business-relevant issues
2 Audit-related issues	6 Shareholders and voting mechanisms
3 Capital Structure	7 Environmental and social issues
4 Company Control	

Even though the voting rights for our portfolio holdings reside with our administrator, we are able to provide our recommendations based on our policy, and our administrator takes them into account when carrying out the proxy vote.

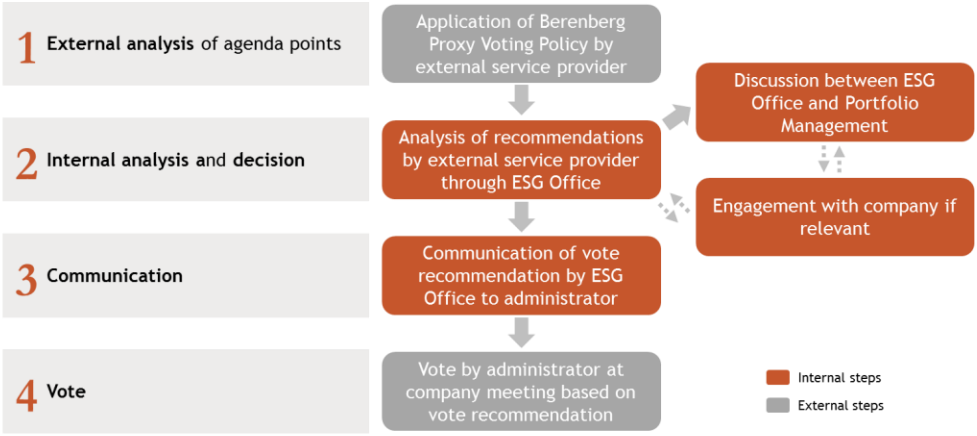
Our Proxy Voting Policy is, deliberately, not to be thought of as a hard set of rules, but rather a set of guidelines on which we base our analysis. Every vote recommendation is preceded by an initial analysis through our external proxy voting service provider, IVOX Glass Lewis, and a further in-depth analysis by our ESG Office and the responsible portfolio management entities. If questions arise during this analysis, we take them up directly with the company as part of our engagement and, if possible, incorporate the findings obtained into our final recommendation.

You can find our Berenberg WAM Proxy Voting Policy at berenberg.de/en/esg.

Our progress

Having implemented our proxy voting approach in 2019, we are working to further expand the proportion of funds and invested companies to which we apply this approach.

Our proxy voting process



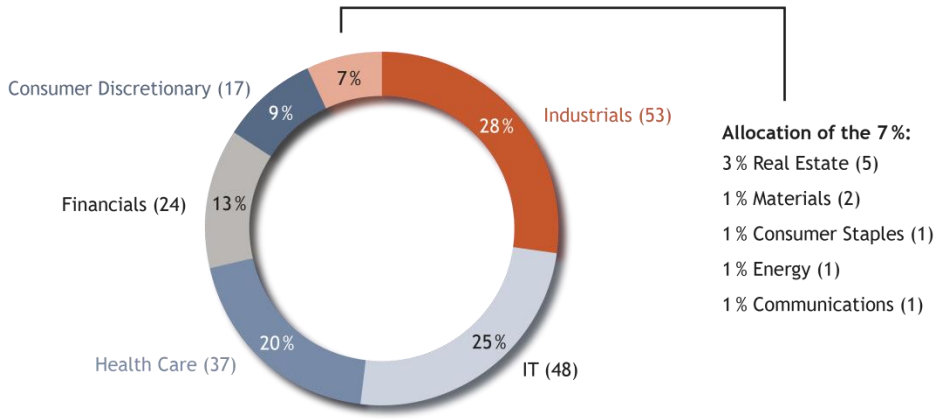
Proxy voting in 2020: overview[3]

In addition to expanding our approach to include more funds and companies, we are also continuously working on further expanding our approach from a process perspective. In particular, we attempt to communicate our voting recommendations even more transparently to portfolio companies and explain the reasons for our recommendations against management in a comprehensible way. This gives us the opportunity to enter into an exchange with companies on relevant corporate governance and other proxy-voting-related topics beyond the voting recommendation.

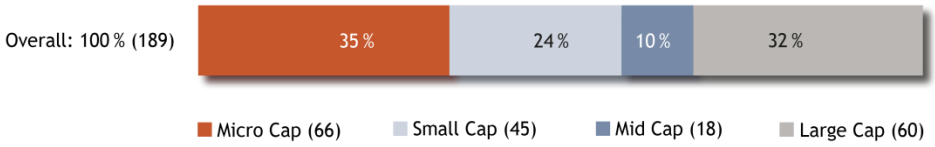
[3] The difference between the total number of recommendations provided and the sum of recommendations with management and recommendations against management is due to five recommendations not being assignable to either category.

Proxy voting in 2020

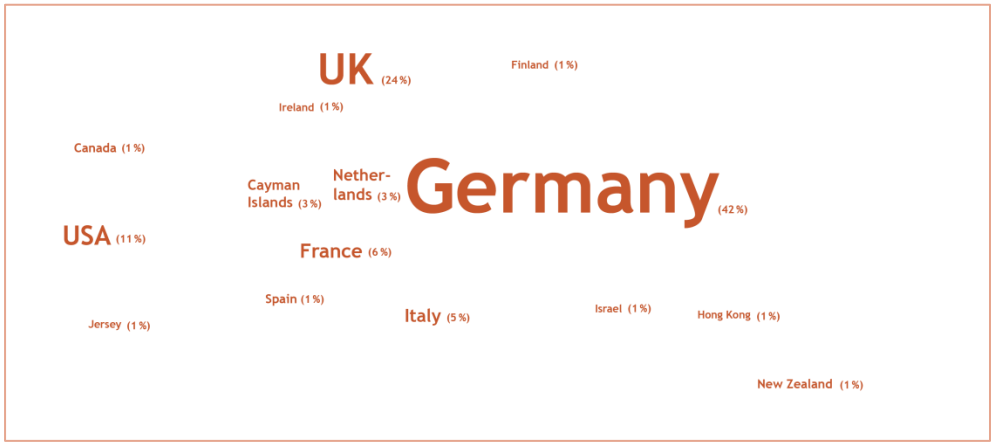
Proxy voting by sector



Proxy voting by company size

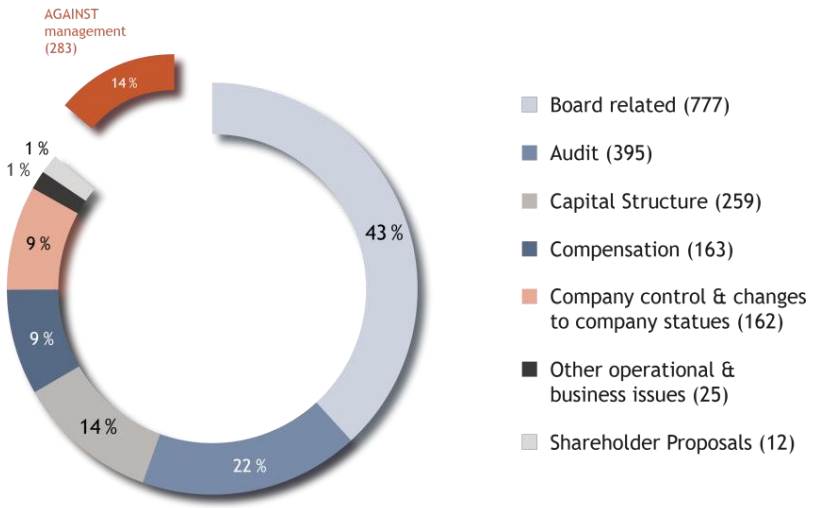


Proxy voting by country

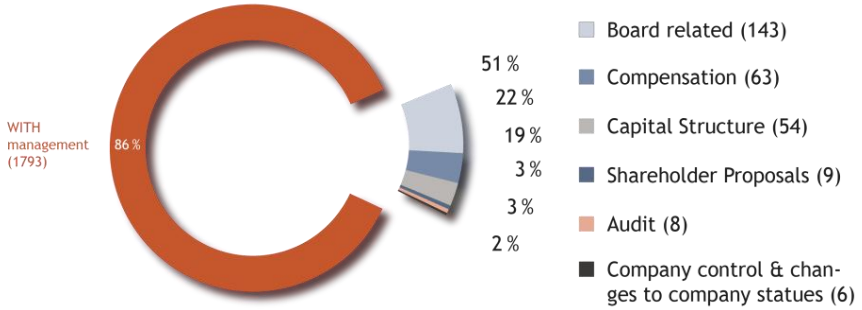


Proxy voting by topic

Split of vote recommendations WITH management by topic



Split of vote recommendations AGAINST management by topic



Collaboration

Participation in sector and investor initiatives is important for us in order to hold exchanges with other investors and companies, to engage jointly "with one voice" and, ultimately, to support positive change. We see collaboration as a way to further develop and strengthen our own ESG approach. We are part of overarching initiatives such as the Principles for Responsible Investment (PRI) and the International Corporate Governance Network (ICGN), but also support initiatives that address specific aspects of sustainable business. In 2020, for example, we signed the investor statement of the KnowTheChain initiative, underpinning our expectation for companies to address forced labour in their global supply chains. Building on this, we were part of a collaborative engagement with one of our portfolio companies to specifically address human and labour rights abuses against Uighurs in the Xinjiang Uygur Autonomous Region.

Initiative	Description	Since
Signatory of: PRI Principles for Responsible Investment	The UN-backed PRI initiative has been signed by and works with a wide range of international investors to put its six principles of responsible investing into practice. It aims to understand the impact of ESG factors on investment decisions and help signatories integrate them into their strategies and activities. We are a signatory to the PRI.	2018
ICGN International Corporate Governance Network	The ICGN consists primarily of members from the asset management industry and works to define and promote effective standards of corporate governance and investor stewardship We are a member of the ICGN.	2018
KNOWTHECHAIN	KnowTheChain is a partnership of the Business & Human Rights Resource Centre, Humanity United, Sustainalytics and Verité, and is supported by investors and companies. The initiative provides supporters with resources to understand and address forced labour risks in supply chains. We are a supporter of the initiative, signed its 2020 investor statement and participated in a collaborative engagement via the initiative.	2020
access to medicine FOUNDATION	The Access to Medicine Foundation is an independent non-profit organisation dedicated to advancing the engagement of the pharmaceutical industry in low- and middle-income countries. We have signed the initiative's 2021 investor statement for a fair, equitable and global response to the COVID-19 pandemic.	2021

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