

ESG Information

Investment and Custody Account Advice



This information sheet shows the selection and monitoring procedures for sustainable financial instruments. It furthermore highlights the ESG strategies available if the client prefers to take criteria from the areas of environment, society and corporate governance (ESG) into account.

Selection

The basis is provided by strategic asset allocation. For the selection of the financial instruments used, a comprehensive number of qualitative and quantitative selection criteria are applied, such as:

- ESG characteristics: MSCI ESG ratings and CO2 intensity
- Basic assessment: peer group comparison of various equity and company key figures
- Tradability: market capitalisation, trading volume, bid/ask spreads
- Fees for collective investment schemes: annual product costs (TER), trading fees
- Return deviations of passive collective investments schemes vis-à-vis their classic counterpart, tracking difference, tracking error
- Further criteria from the VZ fund selection process such as replication type or securities lending

The aim is to only recommend ESG investments that are convincing in terms of ESG characteristics and product quality.

If no ESG data is available for an asset class or if the selected financial instrument does not fulfil the ESG criteria, an alternative that does not explicitly take ESG criteria into account is recommended.

In addition, positions may be recommended for tactical reasons in order to implement selected ESG strategies and/or increase the potential returns. Passive and active funds, structured products and individual securities that fulfil minimum quantitative criteria, such as a minimum ESG rating, can be selected. In addition, there are ESG restrictions at overall portfolio and position level that must be observed.¹

Monitoring

The financial instruments used are monitored in terms of product quality and ESG characteristics. In addition, a regular review is performed to determine whether there are alternatives that meet the criteria even better. If one of these financial instruments performs better than a position used, an examination is conducted to determine whether it makes sense to replace it.

ESG strategies

The following ESG strategies may be used for the recommended strategic and tactical positions:

ESG strategies	Examples	Remarks
<p>Positive and negative criteria</p> <p>Preference for companies with good ESG characteristics (positive selection) or exclusion of companies that violate certain values or standards (negative selection)</p>	<ul style="list-style-type: none"> • ESG ratings (at least MSCI rating A) 	<p>Depending on the financial instrument, different criteria and limits may be defined.</p> <p>Strategic or tactical implementation is carried out using a suitable financial instrument.</p>
<p>ESG integration</p> <p>Taking ESG criteria into account when evaluating companies</p>	<ul style="list-style-type: none"> • Higher company valuation due to ESG considerations • Lower company valuation based on ESG considerations 	<p>Depending on the financial instrument, different criteria and limits may be defined.</p> <p>Strategic or tactical implementation is carried out using a suitable financial instrument.</p>



ESG strategies	Examples	Remarks
<p>Thematic investments</p> <p>Selection of companies related to a specific ESG topic</p>	<ul style="list-style-type: none"> • Circular economy • Clean energy • Water • Green bonds • etc. 	<p>The ESG strategy is generally only recommended to a limited extent due to possible deviations from the market return.</p> <p>Depending on the financial instrument, different criteria and limits may be defined.</p> <p>Strategic or tactical implementation is carried out using a suitable financial instrument.</p>
<p>Active shareholder policy on the part of the fund provider</p> <p>Influencing a company through the exercise of shareholder rights</p>	<ul style="list-style-type: none"> • Engagement • Exercise of voting rights 	<p>The level of engagement and the exercise of voting rights can vary depending on the fund. Normally, only a few securities (0% to 1%) in a fund experience any engagement. The exercise of voting rights may also vary depending on the fund provider and region.²</p>

The ESG strategies listed above are not classic impact strategies that aim to have a positive impact on the real economy. Whether and to what extent these ESG strategies generate positive effects in the real economy is relatively unclear and difficult to measure or prove.

¹ On request, your contact person at VZ will be glad to provide you with further information concerning the ESG criteria that apply.

² The level of engagement and the exercise of voting rights of the fund provider are not evaluated by VZ.

