

ESG Integration in Bond Strategies

Principles of sustainable investing at BANTLEON

Introduction

BANTLEON implemented environmental, social and governance (ESG) principles as early as 2009. In addition, Bantleon has been supporting the Principles for Responsible Investment (PRI) since 2013, e.g. by integrating ESG criteria in its fundamental analysis and investment decision process. Sustainable investing is thus an integral part of the investment process, whereby both sustainability exclusions are applied while additional added value is created through the explicit integration of ESG information. The aim is to better assess risks and to capture return opportunities to achieve a better risk-return profile at the overall portfolio level.

The ESG process is based on our »Principles on Environment, Society and Corporate Governance in the Investment Process« and the »Principles for Responsible Investment« of the UNPRI organisation (www.unpri.org). The guiding principle of the ESG process is to support business models with a positive social impact and to avoid non-sustainable companies in the investment universe without negatively influencing the return perspectives. Instead, the consideration of ESG criteria is intended to reduce the risk of loss and volatility in the long term. Against this background, the processes described below are applied to all bond strategies managed by Bantleon.

Process for ESG Integration

The ESG analysis, together with the fundamental and relative value analysis, is a systematic component of the final investment decision. Sustainability information and changes in the ESG rating are monitored as part of the continuous individual issuer analysis as well as the overall portfolio risk analysis. Influencing sustainable business practices is an integral part of the regular company discussions. If a change in the ESG profile of issuers held in segregated accounts or mutual funds leads to a shortfall in the requirements defined in the »BANTLEON ESG Process«, these are reported daily to the responsible portfolio manager/members of the investment committee by the Bloomberg Compliance Manager. The responsible portfolio manager/members of the investment committee must then decide on the further procedure in relation to the position concerned, taking into account the criteria defined in points 1. and 2.

1. Exclusions from the Investment Universe

BANTLEON supports the international agreements on compliance with the conventions on anti-personnel mines (Ottawa Convention) and the prohibition of cluster bombs (Oslo Convention). We therefore do not invest in issuers that are directly or indirectly involved in the production and/or distribution of cluster bombs and/or landmines. In addition, issuers that are directly or indirectly involved in the production or distribution of biological and chemical weapons as well as DU munitions are excluded. Furthermore, BANTLEON does not speculate on a shortage of food and invests primarily in issuers from countries that have signed the OECD Guidelines for Multinational Enterprises. Issuers that have signed the United Nations Global Compact are also preferred (<https://www.unglobalcompact.org/what-is-gc/participants>).

2. Analysis and Selection Process

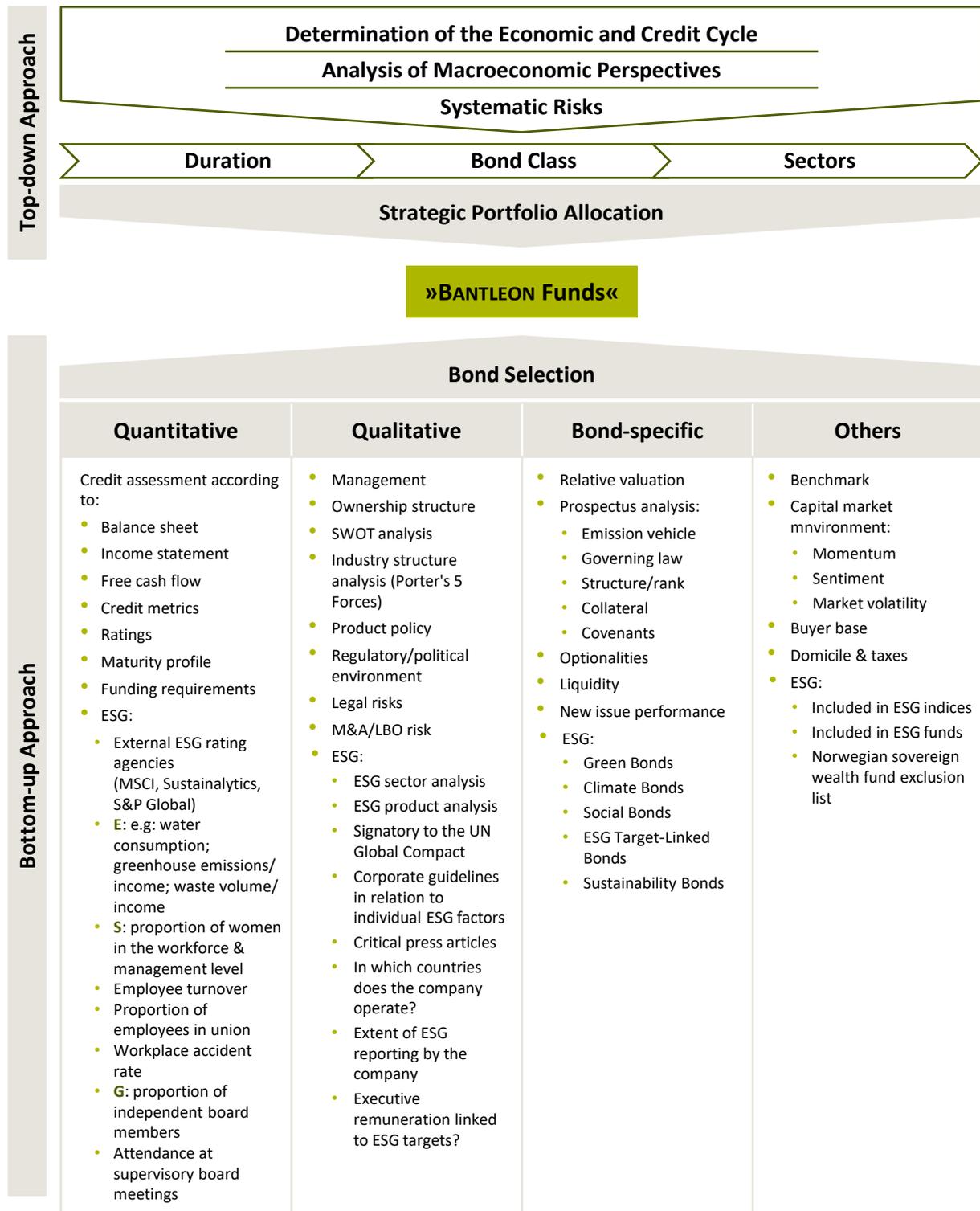
Apart from the exclusions from 1., BANTLEON follows a structured ESG integration approach in the portfolios. Sustainability aspects can contribute to the long-term financial development of an issuer. Through positive ESG integration, sustainability aspects are actively included and positively integrated into investment decisions. Bonds with a positive ESG profile tend to benefit from strong governance in times of crisis, high employee loyalty and established risk management processes (e.g. in relation to environmental risks). Positive integration thus complements the exclusion criteria

defined in 1. by additionally favouring issuers with a positive ESG profile and avoiding issuers with inappropriate ESG risks. This reinforces the objective of reduced volatility and lower risks of loss while maintaining the same return opportunities. As part of the ESG process at BANTLEON, the results of the individual components of the ESG analysis (see *Figure 1*) are included in the investment decision and consequently also in the portfolio construction. The aim is to actively reduce ESG risks in portfolio construction and to give preference to issuers with a high-opportunity ESG profile. In addition to the three ESG pillars, ESG integration also includes the consideration of controversies. ESG controversies help to uncover unethical business practices at an early stage and to avoid these issuers. This factor is also included in the analysis process, especially since reputational damage as well as legal risks can significantly influence the credit rating of an issuer.

2.1 Government Bonds/Quasi-Government Bonds/Covered Bonds/Corporate Bonds

The ESG ratings for government bonds, quasi-government bonds and covered bonds are considered based on data from the agency MSCI Inc. In order to ensure optimal coverage of the bond universe for corporate bonds in view of the increased number of issuers, the agencies S&P Global (formerly RobecoSAM) and Sustainalytics GmbH are also considered in addition to the MSCI ratings. The inclusion of the Sustainalytics rank, which shows the relative ESG performance of the companies in a sector comparison, also complements the ESG analysis by taking the heterogeneity of different sectors into greater consideration. For government bonds, quasi-government bonds and covered bonds, a rating floor of »BBB« (MSCI Inc.) is defined. For corporate bonds, all named rating agencies must have a rating score ≥ 40 (S&P Global Rank, Sustainalytics Rank) or \geq »BBB« (MSCI) at the time of purchase. If a value is below the threshold, the issuer has increased ESG risks, which must be analysed first. The analysts/portfolio managers are required to review the issuer's respective ESG risks for materiality, severity and likelihood of occurrence, among other factors, and to integrate the results into the overall analysis. Issuers not covered by MSCI will also require review by the portfolio manager/investment committee members. Particular weight is given to ESG momentum according to MSCI. This rewards issuers that respond to their weakened sustainability profile and are already taking steps to improve their ESG profile. This enables BANTLEON to invest in future ESG leaders at an early stage and to benefit from an improving risk profile. If the rating is above the defined limit of »BBB« according to MSCI, the focus is on identifying ESG opportunities. Issuers with an attractive ESG profile and above-average sustainability opportunities can thus be positively integrated into the overall portfolio.

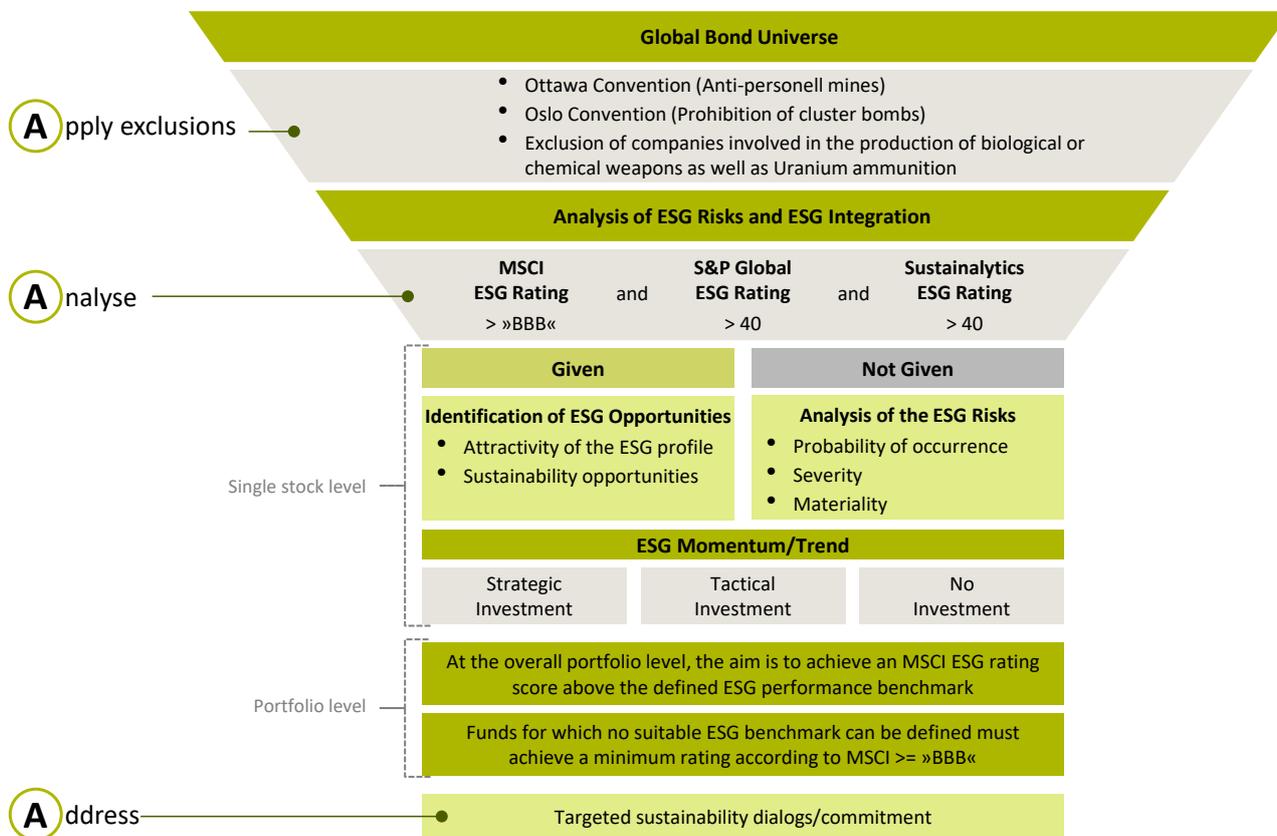
Figure 1: Investment Process



Issuers that do not have an attractive ESG profile and positive ESG momentum according to MSCI may only be acquired if this is necessary to achieve the investment objective. As part of the »BANTLEON Top-down/Bottom-up Approach«, the ESG evaluation criteria subsumed under the bottom-up approach are used and individually weighted and evaluated depending on the issuer. This does not affect the overarching goal of achieving an average rating score above the defined performance benchmarks calculated according to the MSCI system at overall fund level. Funds for which no suitable performance benchmark can be defined must maintain a minimum MSCI rating of >= »BBB« at overall portfolio level.

For the evaluation of the overall portfolio rating, only MSCI ESG ratings are used. Issuers that are not covered by the ESG rating agencies are not included in the calculation of the portfolio rating but require a careful review for compliance with the »BANTLEON ESG Process« by the portfolio manager/the members of the investment committee.

Figure 2: »BANTLEON ESG Analysis Process«



3. Engagement Approach

The engagement approach is limited to corporate bonds. The aim of ESG engagement is to positively influence the issuer. To this end, BANTLEON participates in various conferences, roadshows and company presentations. At these events, the analysts and portfolio managers are encouraged to address the company's management on the ESG profile and the ESG development of the company. The results are included in the company's analysis and communicated to the team.

4. Responsibilities

The responsible portfolio manager is responsible for compliance with the ESG guidelines at portfolio level. In case of corporate bonds, compliance is supported by the relevant specialist from the corporate bond team.

5. Review Process

The portfolio management conducts an ESG check of the issuers for each investment decision. Before trading, an additional check is carried out using the Bloomberg Compliance Manager to determine whether the defined minimum requirements of the ESG process are met. In addition, the portfolios are carefully analysed at least quarterly. This involves checking whether the overall portfolio complies with the minimum rating requirements specified in 2. at the overall portfolio level. If this is not the case, measures are to be taken to improve the ESG profile at portfolio level. In addition, a

quarterly report shall be prepared containing the securities held in the portfolios with an ESG rating below »BBB« according to MSCI and without positive rating momentum according to MSCI. Issuers not covered by MSCI are also included in the report. The analysts/portfolio managers shall ensure that the share of issuers with below-average ESG profiles and/or negative ESG momentum according to MSCI does not take up a disproportionate share of the portfolio for the strategy. The respective performance benchmark serves as a guideline.

6. Reporting

Reporting is carried out consistently based on the MSCI rating. The minimum reporting requirement is the monthly publication of the ESG portfolio rating as part of the monthly reports for mutual funds and – if requested by the client – segregated accounts. If the frequency for individual segregated account clients deviates from the usual monthly cycle, publication shall be limited to this frequency. Higher standards may be applied for clients who have a justified interest in greater ESG reporting transparency (e.g. churches, foundations, insurance companies).

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The present document shall exclusively serve for information purposes and shall neither be seen as an investment advice nor a recommendation or request for a purchase or sale of investment instruments (including funds). The given information can and should not replace an individually coordinated consultation by persons qualified for this purpose. All statements are based on the information currently available to BANTLEON and can be changed without any notification.

The full details of the »BANTLEON Mutual Funds« (umbrella funds BANTLEON ANLEIHENFONDS, BANTLEON OPPORTUNITIES and BANTLEON SELECT SICAV) are described in the currently valid prospectus, the key investor information document (»KIID«) and the semi-annual and annual reports. These documents are the only binding basis for a purchase of fund shares. They are available free of charge on www.bantleon.com or can be ordered in printed form from BANTLEON AG, Aegidientorplatz 2a, D-30159 Hanover (Fund Management Company in Germany), Erste Bank der österreichischen Sparkassen AG, Graben 21, A-1010 Vienna (Paying and Information Agent in Austria), BANTLEON BANK AG, Bahnhofstrasse 2, CH-6300 Zug (Representative in Switzerland) or UBS Switzerland AG, Bahnhofstrasse 45, CH-8001 Zurich (Paying Agent in Switzerland).

Performance calculations are based on the daily fund share prices and the reinvestment of income (BVI method). All costs within the fund are taken into consideration, except the subscription fee. Additional fees, commissions and other costs can be charged at the time of buying. These costs are not taken into account in the calculations presented here and can have a negative impact on performance. Past performance is not indicative of future results.

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As of February 2021