

ESG Integration in Equity 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 equity strategies managed by BANTLEON.

Process for ESG Integration

1. Data Sources

As a basis for sustainability analysis, for compliance with ethical corporate principles such as the UN Global Compact guidelines and for the analysis of reputational risks, BANTLEON uses the ESG ratings of the data provider MSCI as well as its own analyses based on publicly available sources. The ESG ratings from MSCI are available for more than 8,000 global companies and contain detailed fundamental analyses at a sector and individual stock level. The diverse interfaces enable integration of this data into any investment and reporting process.

Besides, BANTLEON has an internal ESG process that enables the analysis and review of individual securities. The combination of an established ESG rating agency with internal ESG know-how allows BANTLEON to invest outside the universe covered by MSCI and enables the team to scrutinise and challenge external research. Having in-house know-how also facilitates the implementation of complex customised ESG investment guidelines.

2. Exclusions

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 companies that are directly or indirectly involved in the production and/or distribution of cluster bombs and/or landmines. In addition, companies 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 implements – depending on the investment strategy – further strategy-specific exclusions, especially in thematic equity strategies and in strategies with specifically strong ESG integration. For example, BANTLEON's infrastructure strategies exclude energy producers with an energy mix that is based on fossil fuels and nuclear energy. This comprises segments of the traditional energy sector, such as oil exploration and production, as well as individual companies from the utilities sector.

Other strategy-specific exclusions and requirements may relate to compliance with the UN Global Compact Guidelines and MSCI ranked ESG laggards, the lowest scoring companies in each sector.

3-A. Positive ESG Integration in Sustainable Fundamental Equity Strategies

In equity strategies that are based on a fundamental stock-picking process, BANTLEON prefers to invest in companies whose business activities directly support the achievement of the UN sustainability development goals (SDGs). These include, in particular, companies from the areas of digital transformation, demographic change and renewable energies. These topics directly address societal challenges that will accompany investors for several decades. As a result, the strategies already have a pronounced sustainability profile by nature.

ESG analysis is an integral part of the final investment decision and risk management and is based on a structured process:

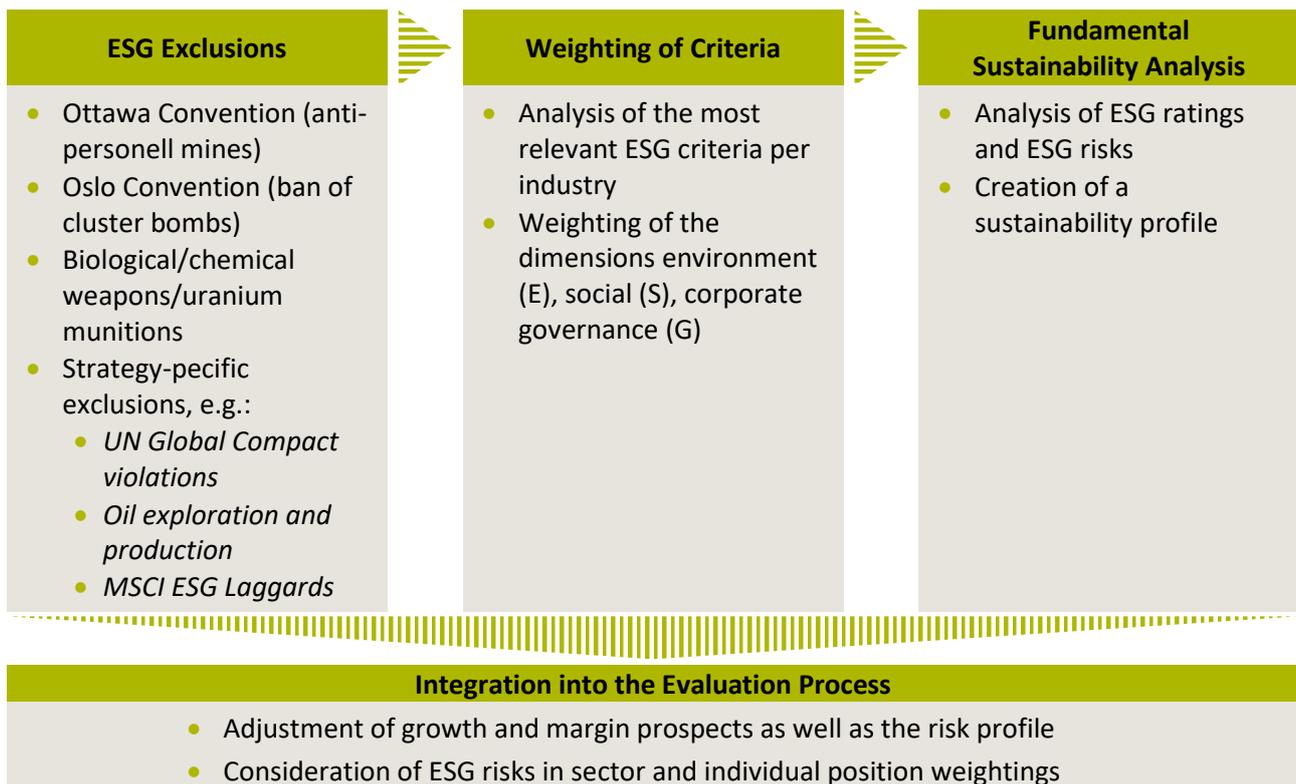
Integration at Sector and Individual Stock Level

Depending on the sector, different non-financial criteria contribute to the success of a business model. Only the sector-specific financially relevant sustainability criteria are included in the ESG analysis. The weighting of each sector is based on ESG data from MSCI and is adjusted in individual cases for subsectors by the internal sector specialist. Thus, the specific criteria are first defined and weighted at sector level and a relative ranking is created for the respective companies.

Decision-Making Process

The preceding application of ESG and strategy-specific exclusions already has a clearly positive effect on the fundamental sustainability profile of the investable universe. In the next step of the individual stock analysis, a sustainability profile is created for each company. In addition to the ESG rating, this contains an analysis of the company's current sustainability strategy, strengths and weaknesses, its relative positioning within the sector and the reputational risks. In the final step, the sustainability profile developed in this way influences the core drivers of the company valuation: growth, profitability and risk.

At a Glance: ESG Integration in Sustainable Discretionary Equity Strategies



3-B. Positive ESG Integration in Quantitative Equity Strategies

Quantitative equity strategies are those strategies in which the investment decisions (stock selection and weighting) are predominantly made using algorithm-based methods. They differ from fundamental investment strategies in two details: a significantly larger number of stocks are often selected automatically and the focus is less on the individual company but more on the relative positioning of the overall portfolio to the benchmark in terms of key risk and return indicators. The ESG integration process for such strategies is therefore predominantly data-based and aims to improve the sustainability profile of the overall portfolio compared to the benchmark in the context of the individual mandate requirements.

Analysis Process

An ESG data evaluation is carried out with each portfolio adjustment, but at least quarterly. The basis for this is the ESG data of the MSCI agency. The aim is to achieve an improved sustainability risk profile compared to the benchmark, particularly regarding the following ESG characteristics:

- Higher weighted ESG score of the portfolio
- Better ESG rating of the portfolio
- Less ESG laggards (rating »CCC« and »B«)
- More ESG leaders (rating »AA« and »AAA«)
- More stocks with positive ESG trend
- Less stocks with a negative ESG trend

ESG scores, their distribution and dynamics are thus considered, enabling BANTLEON to invest in future ESG leaders at an early stage and to benefit from an improving ESG risk profile. Companies with an attractive ESG profile and above-average sustainability opportunities can thus be explicitly integrated into the overall portfolio.

Companies that do not demonstrate an attractive ESG profile and positive ESG momentum according to MSCI will only be acquired if this is absolutely necessary to achieve the investment objective or other requirements for the portfolio/mandate. This is without prejudice to the overarching objective of achieving an average ESG score at total fund level above the defined benchmark calculated in accordance with the MSCI systematics. Prior to trading, a review will be conducted using the Bloomberg Compliance Manager (CMGR) to determine whether the defined minimum requirements of the ESG process are met.

The analysts/portfolio managers ensure that the proportion of companies 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 benchmark serves as a guide for this purpose.

4. Monitoring

Sustainability news and ESG key figures are monitored as part of the continuous risk analysis. In addition to quantitative monitoring, discussions on ESG opportunities and risks are part of every discussion with companies. In order to promote an active dialogue with companies on ESG-relevant topics, the portfolio management team keeps up to date with the latest ESG developments through research and participation in relevant industry events.

5. Voting

Our voting guidelines are based on the principles of the engagement duty for asset managers and the recommendations of the German fund association BVI. They are applied to significant holdings with total investment assets under management of at least 0.5% of the outstanding equities of a portfolio company, as well as to all strategies with high ESG compliance. These include in particular the »BANTLEON Infrastructure Strategies« as well as the multi-thematic and sustainable mixed fund BANTLEON CHANGING WORLD.

Votes are conducted via ISS, the leading service provider in this field. The portfolio managers and analysts integrate the critical issues to be voted on into their corporate discussions. The voting results are analysed annually and the BANTLEON internal voting guidelines are revised periodically.

6. Reporting

Transparency of sustainability indicators is an integral part of the ESG policy. As part of ESG recording, the ESG ratings from MSCI are collected monthly and published in the reporting of the corresponding investment strategies. Once a year, the results of the annual general meeting votes are published on BANTLEON's website. In addition to ESG information in the fund publications, other data points are available to all investors on request.

Disclaimer – Important Information

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.

The issued shares of the »BANTLEON Mutual Funds« and of the »BANTLEON Special Funds« are only allowed to be offered or sold in legal jurisdictions where such an offer or sale is permitted. In particular, the shares cannot be offered or sold within the United States of America nor to or on behalf of US citizens or persons living in the United States of America or anyone qualifying as a US person according to the applicable regulations in the United States of America. This document and its content are not allowed to be distributed within the USA. The distribution and publication of this document as well as the offer and sale of shares may also be subject to restrictions in other legal jurisdictions.

The information herein has been compiled with the utmost care and attention. However, no responsibility is taken for the correctness and completeness of this information. Any liability for possible losses directly or indirectly linked to this information is excluded. This document may only be reproduced, distributed to third parties or spread with the express consent of the BANTLEON BANK Group. This is a translation of the German disclaimer. The German version shall be binding for the interpretation of this document.

As of February 2021