Advisory universe
for sustainable investment products

Disclosure on the consideration of sustainability factors and the management of sustainability risks according to Regulation (EU) 2019/2088

As of 1 March 2021

The following sustainability factors (i.e. environmental criteria, social criteria, and good corporate governance criteria) are applied by Schoellerbank AG in the selection of sustainable financial products in its investment consulting, especially for

- Investment funds
- Structured products (e.g. guaranteed bonds, bonds with a guaranteed minimum repayment), bonds with conditional capital protection

The product selection process in detail

The assessment of companies and sovereigns on the basis of sustainability (ESG) factors employs information from research databases of an independent rating agency. In the first stage, a "negative screening" (screening by exclusion criteria) is performed. This means that companies from controversial business areas are excluded as issuers on the basis of the sustainability factors. More than marginal involvement in business areas such as alcohol, pornography, tobacco, gambling, nuclear energy, controversial weapons, and coal production results in exclusion.

Companies in severe violation of the principles of the UN Global Compact are also excluded. This includes violations of labour standards and human rights, environmental pollution, not respecting the right to collective bargaining, discrimination, and corruption.

Issuers of government bonds must honour basic democratic rights and human rights and effectively combat corruption in order to comply with the sustainability factors. In addition, they must make clear climate protection efforts and be signatories to the Kyoto Protocol and Paris Agreement. Capital punishment is grounds for exclusion, and the military budget may not exceed 2% of GDP. Finally, they may not cover more than 10% of their primary energy needs with nuclear power or must at least have developed scenarios for the long-term phase-out of nuclear energy or adopted a moratorium on new nuclear power plants.

Next, the remaining issuers go through a "positive screening" with regard to their social and environmental standards. This second selection stage excludes the companies that exhibit poorer performance than their peers in terms of the sustainability factors (a best-in-class approach).

Criteria for equities and corporate bonds

Exclusion criteria:

Companies that generate a material proportion of their revenues in the following industries are generally excluded from the investment universe. Alternatively, the proportion of earnings can be used.

- Production and extraction of coal (>25% of revenues)
- Production of controversial weapons such as land mines and chemical weapons (>0% of revenues)
- Production of nuclear energy (>10% of revenues)

Transparency criteria:

Sustainable investment products that invest in companies that generate a material proportion of their revenues in the following industries are labelled:

- Production of tobacco (>10% of revenues)
- Production of alcohol (>10% of revenues)
- Production of pornography (>10% of revenues)
- Gambling (>10% of revenues)

Best-in-class approach with regard to sustainability factors:

For all other sectors, only the companies that are among the top 75% in the given industry with regard to environmental, social, and good governance criteria (sustainability factors) are included in the sustainable investment universe.

Compliance with the UN Global Compact:

Companies in severe violation of the principles of the UN Global Compact are excluded from the sustainable investment universe (e.g. violation of human rights, child labour, forced labour)

Criteria for government bonds

Bonds from the following countries are excluded from the sustainable investment universe:

- Countries that flagrantly and continuously violate basic democratic rights and human rights
- Countries with a high level of corruption (Transparency International Corruption Perception Index[1] below 50%)
- Countries that apply capital punishment
- Countries with especially high military budgets (more than 2% of GDP)
- Countries that have not signed the Kyoto Protocol or the Paris Agreement
- Countries that do not make sufficient climate protection efforts (German Watch e.V.'s Climate Change Performance Index[2] score below 40).
- Countries that cover more than 10% of their primary energy needs with nuclear power and do not have a nuclear power phase-out scenario or a moratorium on nuclear power plants

The approach to integrating sustainability risks3 described above limits the universe of eligible issuers. This can have positive and negative effects on the financial product's yield compared with the benchmark.

[1] The Corruption Perception Index is published annually by the Berlin-based NGO Transparency International. The index ranks countries by degree of perceived corruption in government and public administration. Thirteen individual indices from twelve independent institutions are collated for this. The index is based on data collected in interviews of experts, on surveys, and on other research. The index scale ranges from 0 to 100, with a higher score indicating lower corruption. Only around one third of the assessed countries have a score of 50 or higher (as of 2020). Further information can be found at https://www.transparency.de/cpi

[2] The Climate Change Performance Index is published annually by the Bonn-based not-for-profit association Germanwatch e.V. The index evaluates efforts undertaken by countries to protect the climate. It assesses 14 indicators in the following four categories: greenhouse gas emissions, renewable energy, energy consumption, and climate policy. The index scale ranges from 0 to 100. The best countries achieve index scores above 60. An index score below 40 indicates very weak climate performance. Further information can be found at https://germanwatch.org/de/ksi

[3] According to the Regulation (EU) 2019/2088, a sustainability risk is an environmental, social, or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment;

Criteria for green bonds

Green bonds are bonds that comply with the Green Bond Principles[4], and also qualify as sustainability products in the advisory universe of Schoellerbank AG due to the purposes for which the proceeds of the bonds are used. Green bonds are bonds that aim to finance projects with positive environmental and/or climate impacts. Here, the primary consideration is the financing purpose of the bonds and not the issuer. This also means that green bond funds may include issuers that do not meet the exclusion criteria for sustainable investment products. The Green Bond Principles promote the integrity of the green bond market through guidelines on transparency, disclosure, and reporting and allow investors to put capital forward for climate-friendly projects.

[4] The Green Bond Principles are a guideline created by the International Capital Markets Association for the issue of green bonds.