

ESG Information

Asset Management with Sustainable Fund Selection



Asset management with sustainable fund selection¹ takes account of criteria from the areas of environment, society and corporate governance (ESG). This information sheet shows how funds are selected and monitored and which ESG strategies can be applied.

Selection

Strategic asset allocation forms the basis for asset management.

At least one reference index is defined for each asset class. Where possible, indices that take account of ESG criteria are used for this purpose.

Following this, all ESG index funds that replicate the relevant ESG indices are analysed. For the selection, a comprehensive number of qualitative and quantitative selection criteria are applied, such as:

- ESG characteristics: ESG ratings, CO₂ intensity, undesirable business activities
- Fees: annual product cost (TER), trading fees
- ESG index fund deviations in return vis-à-vis its classic counterpart, tracking difference, tracking error
- Further criteria in the VZ fund selection process: type of replication, securities lending

The aim is to use only ESG index funds that are convincing in terms of ESG characteristics and product quality.

If no ESG index fund exists for a reference index or if the ESG index fund does not fulfil the criteria, an index fund that does not explicitly take account of ESG criteria is selected.

In addition, positions may be used for tactical reasons in order to implement selected ESG strategies and/or to increase the potential returns. Passive and active funds can be selected that meet minimum quantitative criteria, such as a minimum ESG rating or no exceedance of certain thresholds for undesirable business activities. In addition, there are ESG restrictions at the overall portfolio level that must be observed.²

Monitoring

The positions used are monitored in terms of product quality and ESG characteristics. In addition, an ongoing review is performed to determine whether there are funds that meet the criteria even better. If one of these funds performs better than a position used, an examination is conducted to determine whether a securities exchange makes sense.

ESG strategies

For the strategic and tactical positions of asset management with sustainable fund selection, the following ESG strategies may be used:

ESG strategies	Examples	Comments
<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 • Undesirable business activities (e.g. alcohol, tobacco) 	<p>Depending on the fund, different criteria and thresholds may be defined, which in turn may have different effects, for example, on the possible deviations in returns vis-à-vis the classic index.</p> <p>Strategic or tactical implementation takes place via passive and/or active funds.</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>Tactical implementation takes place via passive and/or active funds.</p>



ESG strategies	Examples	Comments
<p>Thematic funds</p> <p>Selection of companies related to a specific ESG topic</p>	<ul style="list-style-type: none"> • Circular economy • Green bonds 	<p>The ESG strategy is generally applied only to a limited extent due to possible deviations from the market return.</p> <p>Tactical implementation takes place via passive and/or active funds.</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.³</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 The present information shall equally apply to the service «Asset management with focus on sustainability».

² On request, your contact person at VZ will be happy to provide you with further information concerning the ESG criteria that apply.

³ The level of engagement and the exercise of voting rights of the fund provider are not evaluated by VZ.

