Vontobel

Taking the lead for a better future

January 2021

Wealth Management

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Further information:
vontobel.com/sustainability

Dear readers,

As a global investment manager, we at Vontobel have a responsibility to play an active role in transforming the economy and society, moving them both towards greater sustainability. This is why we would like to talk to you about investment opportunities and challenges that are arising from this transformation towards a more sustainable economy.

A survey of investors in 16 countries that we carried out in 2020 confirms that we are on the right track with our initiative, with 69 percent of those surveyed stating that they believe businesses have an obligation to act more ethically. But 55 percent are not aware that they can actively influence this by taking what is known as an ESG approach to investing. ESG, which stands for "Environment, Social, Governance", examines how well companies are controlling the risks and opportunities that arise for them specifically related to the environment, social issues and corporate governance. The better a company's ESG rating is, the more likely it is that it is being managed in line with a sustainable investment philosophy.

We are convinced that the demand for sustainable investment solutions will continue to grow. There are essentially three factors that are contributing to this. Investors want to see their awareness of sustainability reflected in their investment decisions, as well as value retention. In addition, numerous private-sector initiatives and even a European "Action Plan for Financing Sustainable Growth" are all promoting the current transformation process.

For Vontobel, far from being only a fashionable, short-lived fad, sustainability has been a key concern for decades. This means that for our sustainable investment solutions, we focus on companies and industries that will be among the winners in the transformation towards a more sustainable economy. The Coronavirus pandemic has shown that such investments are not only worthwhile for people and the environment, but that returns are also positively affected by taking ESG criteria into account. Moreover, as a company, it is also important to us at Vontobel that we ourselves meet high environmental and sustainability standards.

Do you have any questions on this subject? If so, we look forward to talking to you about ESG, and exploring how the future can be shaped by means of sustainable investments.

Georg Schubiger
Head Wealth Management

Actively practicing corporate responsibility

Sustainability has been a central element of Vontobel's value system since the company was founded. When it comes to the economy, environment and society, we consider sustainable action to be a permanent undertaking.

"It's about thinking entrepreneurially, long term, and not just about yourself." With this brief sentence, Dr. Maja Baumann – a member of the Board of Directors and representative of the fourth generation of the Vontobel family – explains what corporate responsibility, and thus sustainable action, mean at Vontobel.

Her statement also touches upon the fundamental mindset to which Vontobel has remained true since it was founded: Entrepreneurial success, stability, and sustainability go hand in hand. In other words, sustainability is closely linked to a consistent focus on client needs and a long-term successful and stable business policy.

This orientation and business policy form the basis for Vontobel as we actively engage our responsibility in the areas of economy, environment, and society. One focus of our sustainable growth strategy as a globally acting investment company is our competencies in sustainable investing, and the range of offers we have developed in this area. As part of our environmental sustainability, we aim to continuously reduce our carbon footprint and support the goals of the Paris Climate Agreement. At the company's many offices around the world, Vontobel contributes to regional added value and is committed to issues and projects that are relevant to the stability and further development of the local community.

Investing for a positive impact
As a globally operating investment manager, we are aware of the responsibility we have to play an active role in the sustainable transformation of our economy and society for future generations. This means that we take the initiative to speak with our clients about the challenges ahead – but also to show them what opportunities this comprehensive transformation process is creating for them as investors. One focus of our sustainable growth strategy as a company is on the further expansion of our competencies in sustainable investing, and the range of investment products we can offer in this domain. Over and over again, Vontobel has been recognized for our sustainable investment strategies. A good example is the excellent ratings we received in conjunction with the "Principles for Responsible Investment (UN PRI)", an initiative of the United Nations.

Reducing our own emissions
Vontobel has been carbon-neutral since January 1, 2009 – a clear demonstration of the importance we attach to environmental and climate protection in all of our business activities, always making our products and processes as climate-friendly as possible. This includes, for example, donating functioning electronic devices that are no longer needed to non-profit organizations for further use. At the same time, we continuously reduce the emissions of our company that are harmful to the climate and raise awareness of the issue among our employees as well as the broader public. We also expect our business partners to comply with high environmental and social standards, which is why we have laid down our purchasing conditions in the "Guidelines for Sustainable Procurement at Vontobel."

Socially engaged
As an employer, we are convinced that the skills and know-how of our employees are crucial for the long-term success of the company. For this reason, training and further education, healthcare, and the compatibility of our employees' professional and private lives are vitally important to Vontobel. Diversity and inclusion are important to us as well; we aim to continuously increase the number of women in the company's senior management and promote a balanced age mix as well.

Vontobel is involved in various areas of the community. As a member of the Corporate Support Group of the International Committee of the Red Cross (ICRC), we help ensure that their humanitarian aid can be provided continuously around the world. As part of this partnership, Vontobel launches an internal donation initiative every year in which employees participate actively. Vontobel is also one of the supporters of the internationally influential Munich Security Conference (MSC), committed to the peaceful settlement of conflicts under the motto "Peace through dialogue."

For a functioning society, Vontobel also considers art and culture important. The Vontobel Art Commission is responsible for promoting art and integrating it into our everyday life. Art enthusiasts from among our employees are members of this commission and are involved in its decision-making process. Our collection focuses mainly on works of art from the field of contemporary photography, which we exhibit on our premises. "A New Gaze" is the name of a prize and grant awarded to a young practitioner of contemporary photography, underpinning Vontobel's commitment to art and giving it a clear, contemporary, and future-oriented direction.

Sustainability is a constant task
Taking sustainability into account is a constant task for every area of the company. That is why they are all represented on the "Vontobel Sustainability Committee." This body defines the sustainability strategy and sets concrete goals, and is led directly by our CEO Dr. Zeno Staub.

The ESG Knowledge Barometer 2020

What investors need to know in order to initiate positive change

The ESG knowledge gap today is too wide…

55 %
of respondents do not know an ESG approach to saving and investment is even possible

46 %
complain their intermediaries are not giving them enough information about ESG

43 %
feel let down by their intermediaries' lack of support and advice on ESG

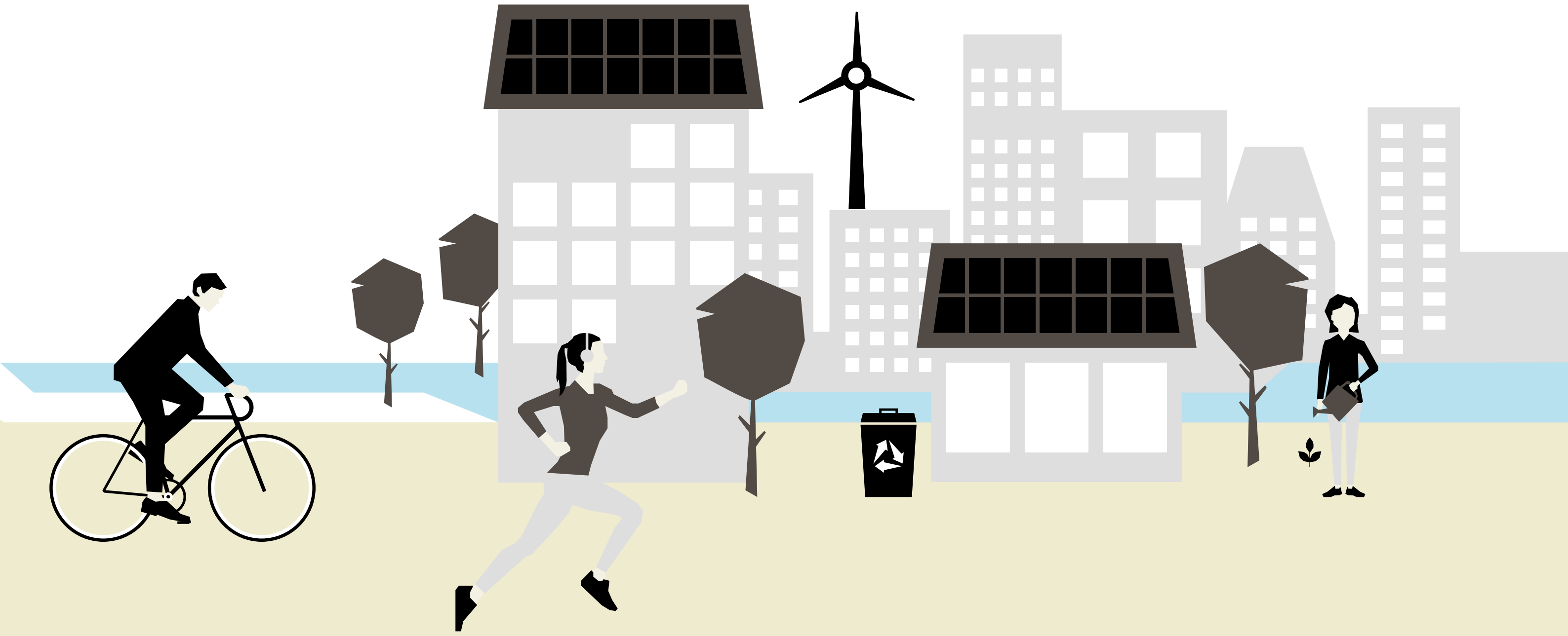
…so for now, ESG remains a minority activity…

ESG approaches account for **30 %** of the wealth of those who have made allocations

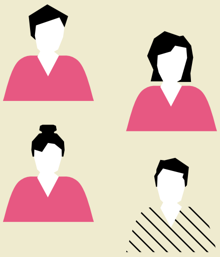
26 %
have made savings and investment decisions according to ESG principles

19 %
have been offered an ESG opportunity by their intermediary

Sources: Vontobel original research, March – April 2019, based on survey of 4,643 consumers in 14 markets in Europe, North America, and South America



…but more people than ever want an ESG approach…



69 %
believe businesses have a duty to behave more ethically

64 %
believe ethical businesses will deliver better investment returns

48 %
of a notional $ 100,000 portfolio is the amount respondents say they would invest according to ESG principles

…and they are looking to intermediaries for ESG support

47 %
of respondents

say an intermediary's advice on ESG opportunities would be a critical influence on their behavior

41 %
of respondents

would be more likely to choose an intermediary able to support their ESG ambitions

43 %
of respondents

would switch out of savings and investments if their money was allocated to activities they disagree with

Can we still afford not to invest sustainably?

Questions about climate change are shaking up the world. More and more investors are specifically financing companies and projects that are bringing about positive change by addressing ESG issues.

Climate change is making headlines all over the world. The devastating wildfires on various continents, the heat wave in Siberia; climate activists pushing Siemens to stop the Adani coal mining project in Australia; and Time magazine naming Greta Thunberg as "Person of the Year" in 2019 are just a few examples that are drawing investors' attention to one of the most pressing issues of our time.

For quite some time, the topic of sustainable investments has been receiving the attention of governments and regulatory authorities. The European Union, for example, launched an action plan aimed at increasing the transparency of sustainable investment solutions – a kind of consumer protection for investors. It also provides for environmental and social risks to be better integrated into the investment process.

Investors and companies are setting sustainability goals

Several asset managers have recently been criticized for not actively supporting sustainability issues through their investment decisions, and for not contributing to solving the problem by failing to exercise their voting rights. The world's largest asset manager, Blackrock, has announced plans to withdraw from investments in such environmentally high-risk industries as coal. Its CEO, Larry Fink, described this move as "a fundamental transformation of the financial system" and emphasized that climate change is a "decisive factor for companies' long-term prospects."

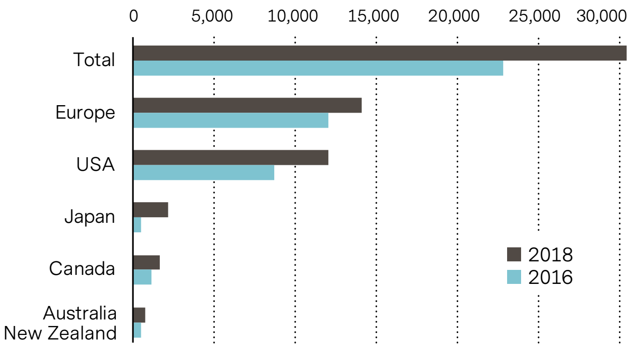
More and more investors are turning their backs on companies that are not taking steps to act sustainably. Instead, for their investments they are targeting companies that are working to meet climate targets, for example. Similarly, bank syndicates have been established that link their corporate lending activity to borrowers' ESG performance targets – so-called "sustainability-linked loans". The interest rate on such loans is directly linked to previously defined sustainability goals, which are checked by the relevant rating agencies. The better the borrower's ESG performance, the lower the interest rate it has to pay to the investor.

Institutional investors as drivers of the ESG trend

Sustainable investment has seen remarkable growth in recent years, going mainstream for both institutional and private investors. The total market for sustainability loans exceeded USD 43 billion in 2018. Assets that follow an ESG strategy already make up more than a third of total global investment. This trend signals a fundamental shift in the overall economy. More and more investors are realizing that creating sustainable value doesn't only generate financial returns.

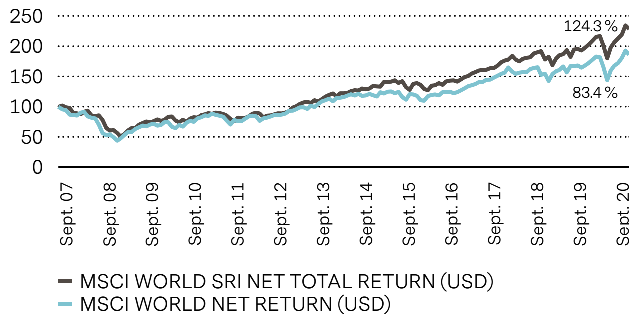
Sustainable investments are easily accessible, and they help improve the world. The strong demand for sustainable investments is largely due to institutional investors. For example, some of the world's largest institutional investors, the Government Pension Global Fund in Norway and the Government Pension Investment Fund in Japan, have opted for sustainable investment strategies. This also applies to many asset managers, who are increasingly integrating sustainability criteria into their selection process as standard.

Strong global growth in sustainable assets
in USD billions



Source: Global Sustainable Investment Review 2019, GSIA

Sustainable investing does not mean compromising on performance, even in times of crisis
Comparison of MSCI World Socially Responsible Index vs. MSCI World (in USD)



Source: Bloomberg

But more and more private clients also want to align their investments with their personal values and ensure that they will have a positive impact. Younger generations in particular, such as the Millennials – but also older ones – are making investments that are in harmony with their personal values, supporting companies that are reducing, or even solving, the world's problems through their products and services. Almost a third of the 4,700 people surveyed by Vontobel in 14 countries in our study "Drive positive change with ESG" stated that they are making their savings and investment decisions in accordance with ESG principles. Nevertheless, there is even greater scope for ESG investments, as 64 percent of respondents believe that ethical companies will generate higher returns.

Sustainable investing is also moving into the mainstream because experience now shows that it is not necessary to accept lower returns as a tradeoff, and that it is even possible to beat the market and reduce volatility, especially when investing in companies that follow good risk management practices as related to ESG risks.

Three key strategies for sustainable investing
There is no "one size fits all" strategy for private and institutional clients, but rather three main strategies that investors can follow. The largest and oldest sustainable investment strategy is to simply avoid investments that do not correspond to the investor's personal values, by excluding certain sectors from consideration, such as tobacco or firearms.

The second strategy is to invest in companies that have an established and active ESG risk management system, such as clear environmental goals (e.g. how, and by when, their CO_2 emissions will be reduced), social goals (e.g. how their value chain is controlled and monitored), or corporate governance structures (e.g. how the rights of minority shareholders are protected).

A third strategy is to make a contribution towards a positive environmental and social impact. This strategy means investing in companies that offer sustainable products and services that improve the world and society and are within reach, in areas such as energy, education, and health.

Make a positive impact and generate a positive financial return

Avoid non-value aligned investments

Exclusion of industries

- ✕ Tobacco
- ✕ Firearms
- ✕ Nuclear
- ✕ Coal

Firms with good risk management

Sustainable business practices

E — Environment
- CO2 emissions
- Waste management
- Use of resources

S — Social
- Working conditions
- Supply chain management
- Equality

G — Governance
- Independent management
- Shareholder rights
- Remuneration

Contribute to a positive, environmental and social impact

Affordable solutions for a better environment and society

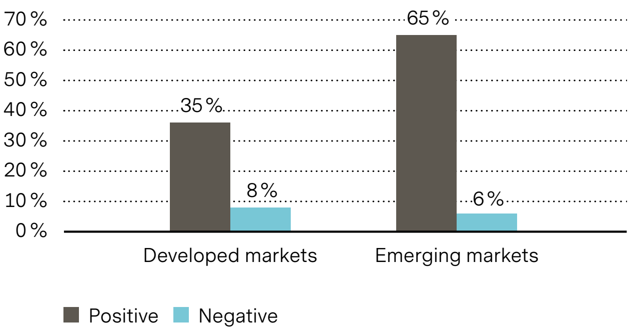
Energy | Water | Health | Education | Housing | Digital Finance

Act ESG: Your conviction needs an investment strategy

How ESG adds value
Between the years 1990 and 2000, investors thought that inclusion of ESG factors in investment decisions would mean giving up performance. But this thinking is outdated. There is evidence that ESG investments can enhance returns, partly by selecting companies that are better run, and partly by avoiding event-related risks. An extensive meta-review of over 2,000 academic studies on the effect of incorporating ESG factors into investments found strong evidence that ESG improves the risk / return profile of investments. Eleven times more studies identified a positive effect than a negative effect for emerging market investments, while the effect was similar but less pronounced for developed markets.

How does ESG add value?
While the 2,000 studies above considered many aspects of ESG, there are three core ways in which ESG improves investment results:

Review of 2,000 academic studies: did incorporation of ESG factors have a positive or negative impact on risk / return?



Source: ESG and financial performance: aggregated evidence from more than 2,000 empirical studies (Friede, Busch and Bassen, December 2015)

1.
Increases returns[1]
The MSCI World Socially Responsible Index outperformed the MSCI World Index by about 15 percentage points over 10 years.

2.
Reduces volatility[2]
Across almost all categories, equities funds with 5 Morningstar globes (high ESG rating) are significantly less volatile than those with 1 globe (low ESG rating).

3.
Complements traditional research[3]
Incorporating ESG factors into traditional research approaches significantly improves the risk adjusted return by up to 50 %.

Past performance is not a reliable indicator of current or future performance.

[1] Vontobel Asset Management analysis as of December 31, 2017
[2] Categories refer to characteristics of companies such as large, small, and mid-caps
Morningstar analysis, March 16, 2017
Source: morningstar.com
[3] Source: Bank of America Merrill Lynch, May 20, 2018
Period of 2005 – 2017, U.S. equities, BoAML investment universe

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