Vontobel

Act ESG

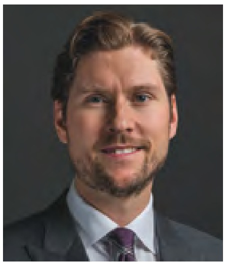
# Make your money matter

## Creating impact through public equity

April 2021

Asset Management

# Foreword



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**Björn Wettergren**
Member of the Board of Directors at Vontobel
Member of the Vontobel family pool

Impact investing has become a widely used term in the finance industry after emerging from the fields of sustainable finance and philanthropy. While there is no single definition for impact investing, what all definitions have in common is the conviction that capital can deliver more than a pure financial return and can support solutions to the largest societal challenges we face today.

At Vontobel, we create and pursue opportunities for our clients and together we actively shape the future with conviction and determination. Based on this promise to our clients, as an active investment manager, we have the responsibility to find out how our investments can influence society. Here, impact investing is key to solving global challenges that will define the future for generations. As such, it's not just a responsibility to our customers, but also part of our general social accountability to understand, share knowledge and provide access to impact investing.

For us at Vontobel, impact investing is close to our core values and our heritage. Vontobel was established in 1924 and from our origins in brokerage, we have developed into a diversified multi-boutique investment manager. Since foundation, we were able to take a long-term view and to be true to our social responsibility.

In 1993, the Vontobel family established the Vontobel Foundation, which focuses on supporting social, medical and cultural activities, and since 2009, our business operations have been carbon neutral. We have been a signatory of the Principles for Responsible Investment ("PRI") since 2010, and a founding member of the Swiss Sustainable Finance association in 2014. This long-term commitment has clearly paid off for our clients. Vontobel now ranks among the top three Swiss providers of sustainable investments, with around 30 billion Swiss francs (approximately 32 billion US dollars) of assets invested according to sustainability criteria.

Regarding impact investing, we regularly and openly report on our sustainability commitments and impact achieved through our activities. We launched our first fund consciously aiming to reduce the environmental footprint of our investments more than 12 years ago. Since then, our dedicated impact team has consistently focused on improving and refining our efforts to measure and report our impact.

We are continuing this journey by expanding our view beyond environmental footprint by providing financial products with a broader support for the transition towards a more sustainable society. As a member of the Global Impact Investing Network (GIIN), we share best practices relating to impact investing with fellow members, while simultaneously playing an active part defining and establishing global impact investing guidance for our industry and thus actively shape the future for generations to come.

Despite the huge scale of public markets, we feel that impact investing in these markets hasn't been widely discussed and placed in a broader context, so I hope this white paper on impact investing will shed some light on what this term stands for, illustrate what is achievable and trigger your interest in this investment approach.

Sincerely,

**Björn Wettergren**

# Executive summary

This white paper delves deeper into impact investing, first describing this approach in general terms, then elaborating on the latest developments regarding listed equities and lastly, explaining how we approach it.

Impact investing is a concept that until recently was the preserve of philanthropic foundations, rich families, wealthy entrepreneurs and development finance institutions. Today, it's a term widely used in the world of finance as investors, aware of rising social and environmental challenges, want to make their portfolios more impactful. This has translated into rising demand for such products.

What are today's main global challenges facing impact investors? The 17 Sustainable Development Goals (SDGs) that 193 United Nations member states pledged to observe provide a clue. Addressing these challenges will require a massive inflow of private-sector funding from various sources such as private equity, green bonds and public equity, with the latter fast becoming more important.

What can investors expect from "integrating impact" in their portfolios? This depends on the markets they are active in. For instance, impact investing through private equity revolves around specific projects. Public equity, meanwhile, can enable wider adoption and scaling of beneficial business practices, thus complementing private equity efforts.

Most impact investors adhere to the core characteristics of impact investing that were developed by The Global Impact Investing Network (GIIN), which aims to provide guidance for credible impact investing across asset classes. This begins with defining an impact objective, a financial return objective and then managing and measuring impact. By setting a financial return, impact investors differentiate themselves from philanthropists who focus on non-financial objectives.

Investing in publicly traded stocks with the goal of bringing about environmental or social change is different to investing in project-driven investments. Whilst public equity lacks the "additionality" or immediate effect that other investments offer, listed equity deliver benefits in two steps:

– First, there is an "investor impact". By allocating capital, investors enable companies with favorable characteristics to grow, and scale up production as well as distribution. In addition, investors exercise their voting rights and actively engage with company management to help the companies achieve specific impact objectives.

– Second, there is a "company impact". By offering products and services that enable the transition to a more sustainable economy, such companies provide a pathway of change towards solutions to environmental and social challenges, and thus will grow their businesses.

These steps create a positive feedback loop, which accelerates change, whilst also enabling investors to benefit from positive financial performance.

We, Vontobel's listed equity impact team, focus on driving positive change by owning and influencing companies whose goods and services generate profitable growth by addressing the key global challenges we face today. Companies with innovative products and services providing access to clean water and energy, developing sustainable cities and efficient industry, enabling proper healthcare and equal opportunities, delivering sustainable food and responsible consumption are likely to help address some of the world's most pressing problems. Each of those areas – we call them impact pillars – offers considerable investment opportunities. Each of our portfolio holdings must provide a solution that fits one of our impact pillars and support at least one of the UN SDGs. Therefore, our investment process is designed to assess the degree to which company activities align with our impact pillars and measure how they contribute to the key performance indicators (KPIs). We regularly publish an overview of consolidated KPIs, alignment with SDGs, and our engagement activities.

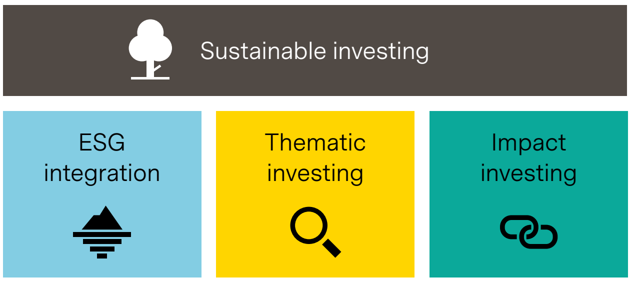
We are convinced that people can make a difference and achieve a positive effect through their investments, not the least via listed stocks. We want to drive encouraging change, helping our investors achieve their goals and deliver tangible and measurable influence. We attempt to clarify and demonstrate our specific intentions in this white paper.

# The landscape of sustainable investing

Sustainable investing includes many different investment strategies. The spectrum ranges from the integration of environmental, social and governance (ESG) factors into the investment process, to thematic and impact investing.

Sustainable investing is the umbrella term for a concept with many different rationales, approaches and definitions. Motives vary from ethical principles, where investors actively filter out companies based on personal values or political conviction, to simply wanting to achieve better investment results.

**Sustainable investing spheres at hand for investors**




Source: Vontobel

### ESG integration

ESG integration focuses on analysis of a company's environmental, social and governance credentials, alongside more traditional financial metrics. The candidates for portfolio inclusion must pass a set of certain ESG thresholds or best-in-class criteria. Financial returns are in focus, while fully integrating ESG risks and opportunities throughout the investment decision process.

### Thematic investing

Thematic investments focus on opportunities related to a single specific theme or follow a broad approach addressing several global megatrends. Themes expected to generate above-market returns can range from future mobility concepts or smart farming to gender diversity. Thematic investing does not necessarily consider ESG criteria in the investment decision process, but often does.

### Impact investing

Impact investing focuses on projects or businesses able to drive progressive change or support transition processes, for example towards climate goals. The objective is to achieve specific and measurable goals that are beneficial to society at large and/or the environment, alongside a financial return. Impact investors typically use some of the UN's 17 Sustainable Development Goals (SDGs) as framework for targeting investments (for additional details on the SDGs see page 7). While investment portfolios with an ESG approach exclude companies that fail to meet certain ESG criteria, impact investors include companies that create a positive social or environmental effect. To evaluate whether the companies' goods or services actually have the desired effect, impact-focused investment managers measure and report benefits – the impact – in a transparent manner. Most also adopt a "do no harm" approach.

### New regulations build trust in sustainable investing

European Union regulations have forced investment firms marketing sustainable funds to disclose how they actually contribute to proclaimed environmental and social goals. The recent EU Sustainable Finance Disclosure Regulation (SFDR)[1] requires financial market participants and financial advisors to be much more transparent when promoting financial products based on ESG criteria or their pursuit of sustainable objectives. Impact-focused asset managers too, will have to provide details of policies and objectives in their investment processes, and how their products actually match their marketing claims (for additional details, see Appendix).

[1] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

# How impact investing aligns with UN Sustainable Development Goals

The United Nations' Sustainable Development Goals (SDGs) are a blueprint to achieve a better and more sustainable future for all of us. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice. In 2015, 193 member states of the United Nations unanimously adopted these 17 global goals embedded in the UN document "Transforming Our World: The 2030 Agenda for Sustainable Development". They are further divided into 169 targets with approximately half of them dealing with measurable outcomes, such as achieving universal health coverage or ending preventable deaths of children under five. The remaining targets are process-related. The SDGs and their corresponding targets establish a clear and universal roadmap, a framework that aligns governments, public investors, private companies and other organizations across the globe.

**The UN's 17 Sustainable Development Goals adopted in 2015**


Source: United Nations


**Market opportunities – need for private-sector funding**
Efforts to meet these global goals are going to be enormous, but are also expected to increase market opportunities within food and agriculture, cities, energy and health sectors as well as create millions of additional jobs. Realizing these ambitious global goals will require capital from both public and private actors, as governments aren't able to foot this bill alone. The United Nations Conference on Trade and Development (UNCTAD) estimates that funds dedicated to investment in sustainable development have reached 1.2 to 1.3 trillion US dollars.[2] Over the next ten years, the "decade of delivery" for the SDGs, such sustainability-linked products are expected to grow significantly.

Impact investing can do the trick here, and listed companies that help to meet the goals will play a major role. The SDGs provide an ideal framework for impact investors to expand into the public equity space. This will allow money from large institutions – including corporations, mutual funds and pension funds – to flow into listed companies, enabling a much wider impact.

[2] UNCTAD, «World Investment Report 2020»;
https://unctad.org/system/files/official-document/wir2020_en.pdf

# What's the mechanism behind impact investing?

Both the Global Impact Investing Network (GIIN, see textbox) and the International Finance Corporation (IFC)[3] – the World Bank's investment arm – have established principles for impact investing that overlap to a large degree. Both organizations aim to provide a straightforward framework for impact investing throughout the investment process to establish the foundation of a credible impact management system.

The principles the organizations created in co-operation with asset owners, asset managers, as well as multilateral development banks and development finance institutions have been designed to fit a wide range of institutions and funds. These principles can be summarized as follows:

**1 – Intentionality of the impact investment**
The investment process starts off by defining the impact objective(s) at the core of the intended positive social and environmental impacts aligned with the 17 UN SDGs or other widely accepted goals.

**2 – Aims for financial returns**
Apart from achieving the desired effect, impact investors aim for a financial return on capital that ranges from at least a market rate to a risk-adjusted market rate. This is to distinguish impact investment from philanthropy, which solely focuses on social or environmental change and not on financial returns.

**3 – Investments across asset classes**
There are numerous opportunities across multiple types of asset classes, from private equity and private debt, to listed equities and "green bonds".

**4 – Managing and measuring impact**
Defining indicators according to the intentions, then measure each investment's achievement and report results.

GIIN
GLOBAL IMPACT INVESTING NETWORK

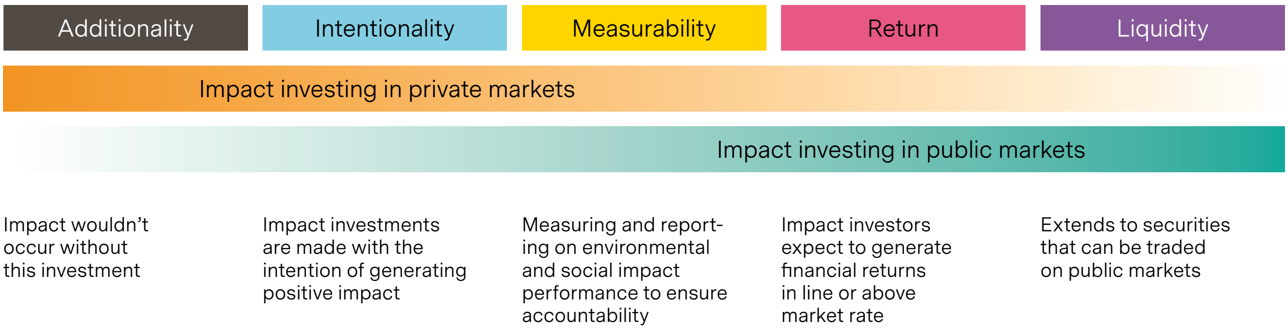
The Global Impact Investing Network (GIIN) brings together impact investors across the globe. The network aims to facilitate the exchange of best practices among its members and highlight innovative investment approaches. GIIN also produces valuable tools and impact investment statistics. It strives to open up the area of impact investing to more members with the ultimate goal of benefiting the planet. Vontobel has been a member of the GIIN since 2020. We actively participate in the network's Listed Equities Working Group, which notably supports investors in structuring and deploying effective impact strategies in public stocks.

[3] IFC, "Investing for Impact: Operating Principles for Impact Management," 2019

# Creating impact through listed equities

Listed equities play a growing and indispensable role. Traditionally, impact investing was confined to private debt, often in the form of microfinance, and to private equity. It focused on creating impact through small-scale social or environmental projects. When innovations or pilot projects prove promising, they need large investments to evolve and ultimately mature. This is where public equity can be an enabler and a natural complement to private investments, providing large-scale manufacturing and a global distribution network. Over the past decade, impact investing via the stock markets has created the required critical mass, scalability and global reach. The global challenges are so huge that tackling them requires a targeted yet broad approach across all asset classes while considering their specific characteristics.

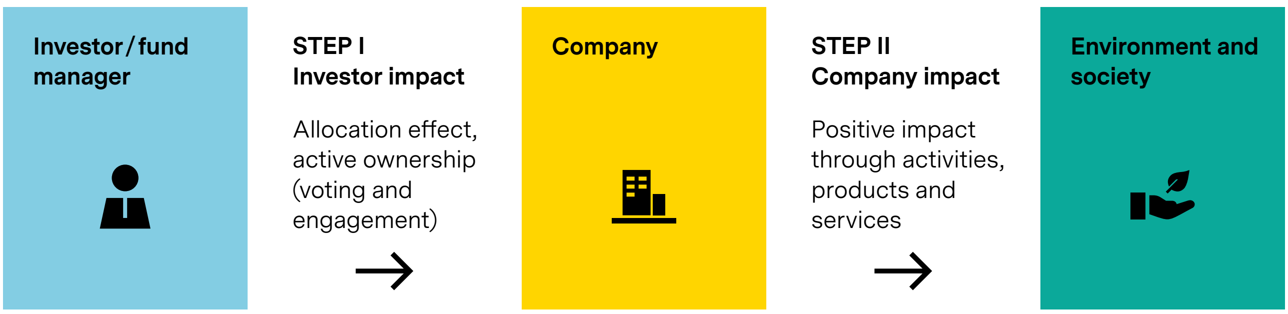
**The key principles of impact investing and where they are applicable**




Source: Vontobel

**Two-step approach focuses on impact at both investor and company level**
Investing in publicly traded stocks with the ultimate goal of bringing about environmental and/or social change is an indirect approach – it lacks the immediate effect, or "additionality", that investments in projects or microfinance offer. In a first step, an impact investor influences a listed company through engagement and the allocation of capital. This should result in lower financing costs for these companies. In a second step, companies can grow the businesses with superior impact credentials faster, scaling up the beneficial effects on environment and society.

**Two steps between impact investors' capital allocation to beneficial effect**




Source: Vontobel; University of Zurich, Dep. of Banking and Finance, Center for Sustainable Finance and Private Wealth (CSP), "Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact," July 2019

**STEP I: Investor impact with capital and engagement**

**Capital allocation effect:**

On stock markets, shares circulate freely among shareholders with no cash reaching the company directly. Nevertheless, if many investors favor particular stocks, the companies' market capitalizations rise. As a result, banks are willing to increase lending, or the company can issue more bonds. Impact investors will choose businesses that help reduce the environmental footprint or improve social welfare. The more money investors allocate to such companies, the easier it is for them to raise capital, grow their businesses and become more impactful.

**Voting and engagement effect:**

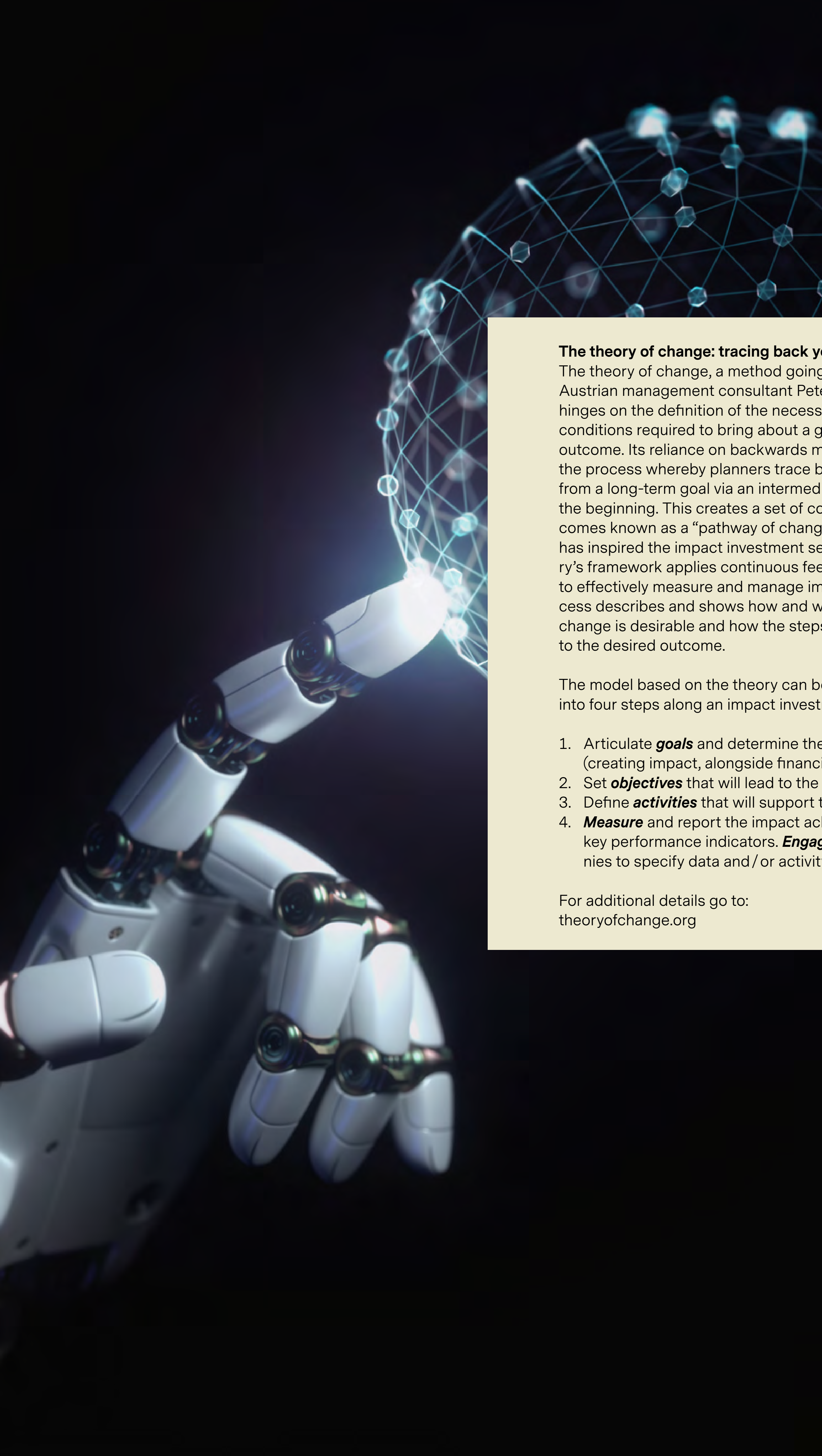
Impact investors exercise the right to vote in annual general meetings, but also directly engage with company management. Thus, impact investors can encourage management to grow impactful businesses or undertake favorable activities such as targeted research and development efforts. They often collaborate with other shareholders to push companies in a desired direction.

**STEP II: Company impact through their activities**

Companies that provide the perfect solution to global environmental and social challenges are highly desirable for impact investors. Such perfect solutions are, however, only available in a few rare cases. In the meantime, the target for impact investing remains driving changes in processes, products and behaviors.

The theory of change (see textbox on page 12) is an ideal compass to identify such desired developments. If we look at the desired end result first and then trace back our steps as suggested by the theory of change concept, we arrive at the conclusion that companies providing innovative products, materials, processes or services create the coveted positive impact that makes them ideal candidates for targeted investments. Such companies are manufacturers, assemblers or installers of renewable energy generation components or grid infrastructure, building materials or heating and cooling technology, as well as energy-efficient appliances or efficient transportation systems, just to name a few. In addition, IT, software and automation solutions can improve processes significantly, thus reducing harm. Likewise, providers of education services, healthcare technology or sustainable food and consumer goods may be candidates for social-focused impact investing. It's fair to say that thanks to the allocation effects from impact investors as described in step I, such targeted companies benefit from easier access to capital, and can grow their activities and businesses faster, or can finance their research and development on their path towards the ultimate goal as outlined by the theory of change. By contrast, the opposite trend occurs in the fossil fuel sector, where divestment strategies deprive companies of the possibility to expand their exploration activities.

The combination of step I and II provides positive feedback loops: the more successful the companies are, the more will investors support them. This will ultimately accelerate the momentum towards a better world, and gives hope that the SDGs, as well as the targets of the Paris Climate Agreement, will eventually be achieved.



**The theory of change: tracing back your steps**
The theory of change, a method going back to the Austrian management consultant Peter Drucker, hinges on the definition of the necessary and sufficient conditions required to bring about a given long-term outcome. Its reliance on backwards mapping reverses the process whereby planners trace back their steps from a long-term goal via an intermediate stage to the beginning. This creates a set of connected outcomes known as a “pathway of change.” This approach has inspired the impact investment sector. The theory’s framework applies continuous feedback loops to effectively measure and manage impact. The process describes and shows how and why the targeted change is desirable and how the steps taken will lead to the desired outcome.

The model based on the theory can be broken down into four steps along an impact investment’s life cycle:

1. Articulate ***goals*** and determine the need for change (creating impact, alongside financial returns)
2. Set ***objectives*** that will lead to the targeted goals
3. Define ***activities*** that will support these objectives
4. ***Measure*** and report the impact achieved through key performance indicators. ***Engage*** with companies to specify data and / or activity needs

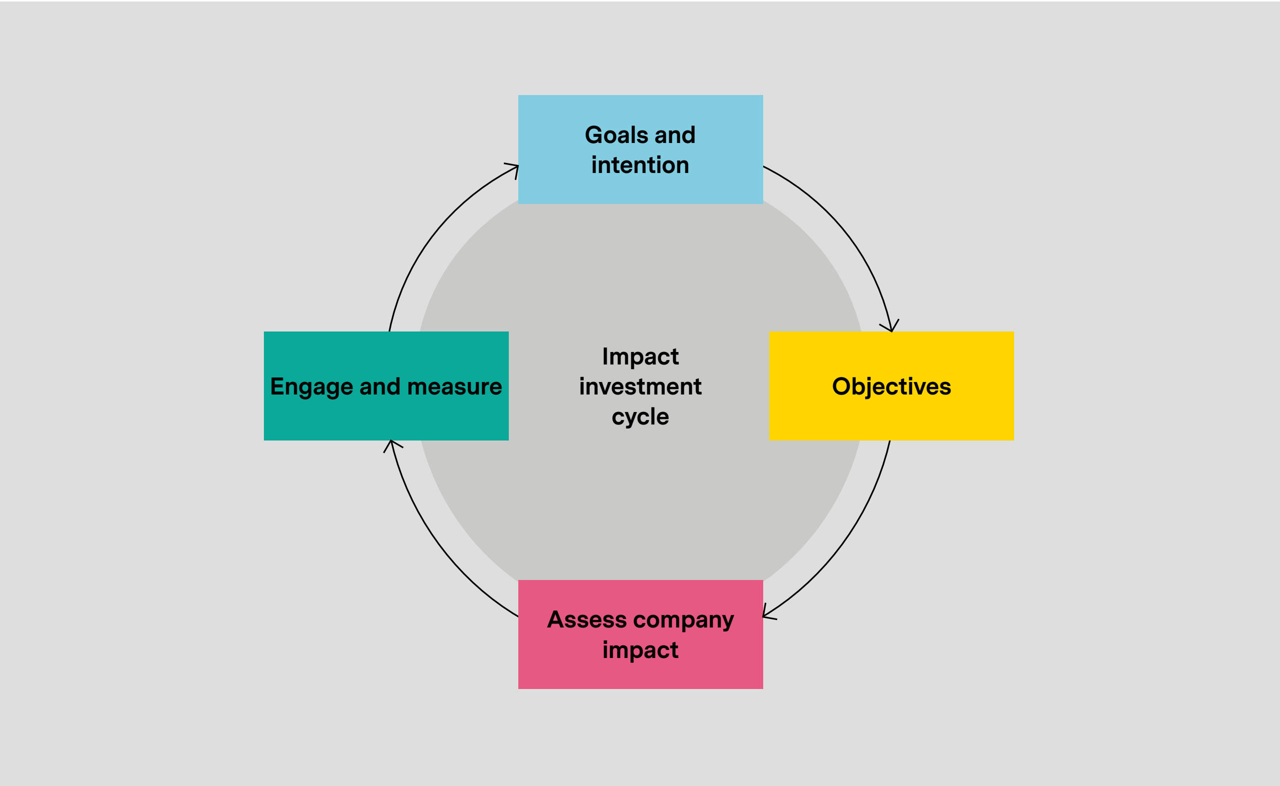
For additional details go to:
theoryofchange.org

# Vontobel's impact approach

**Driving change through impact investment**
There is no such thing as a neutral investment. Every transaction has an impact, be it positive or negative. This awareness has become an important driver. In our view, every investment must start with the following question: "What is the potential impact on the environment and the society?" The core of our philosophy is the intention to drive positive change via our investments. We believe that the investment industry needs a paradigm shift away from short-term financial gains to long-term investment benefits that ultimately contribute to a better quality of life. Impact investing plays an important part in this.

**What do we want to achieve?**
For us as managers of a broad impact portfolio with an environmental and social focus, eight challenges are particularly relevant: resource scarcity, rising pollution, climate change, global water problems, aging population, health problems, food distribution issues, and growing inequality. Each of these areas offers considerable and varied investment opportunities. Using the theory of change as a guideline, we aim to invest in companies whose goods and services generate profitable growth as well as positive impact. This leads to the investment cycle depicted below.

**Impact investment cycle based on the theory of change**

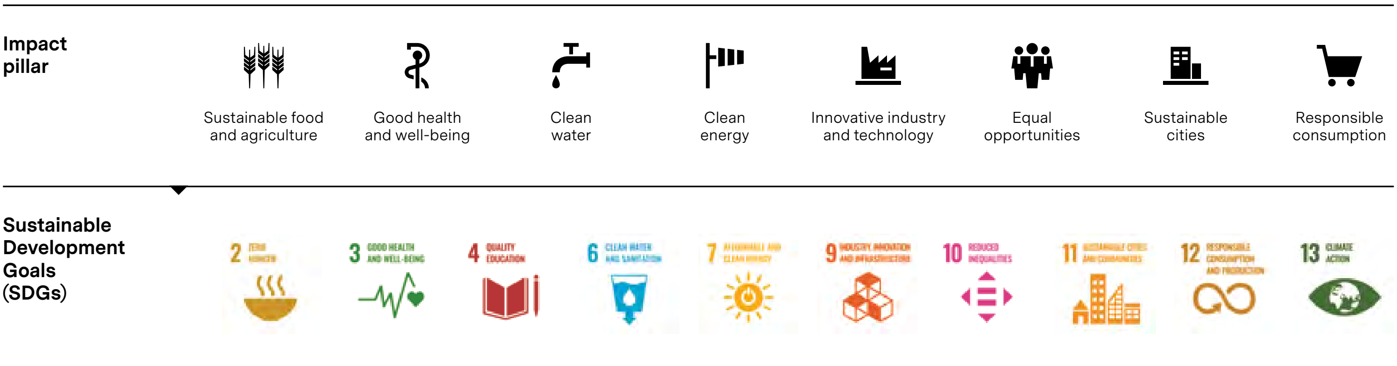



Source: Vontobel, adapted from the original figure found on theoryofchange.org

# Our key impact objectives

Based on the global challenges mentioned in the previous paragraph, we defined key goals – be it for environmental and/or social focused investment strategies – and identified eight impact pillars. All pillars support some of the much broader UN SDGs (see figure below). Our portfolios only contain companies offering products and services that align with one of our eight impact pillars described below and contribute to at least one of the SDGs.

**Our impact objectives and their link to the UN SDGs**




Source: Vontobel

For each of the eight impact pillars, we have defined objectives, activities, and key performance indicators. With an eye on the theory of change, all of these elements are likely to evolve over time.

### Sustainable food and agriculture

Nearly 700 million people still go hungry, even though there is enough food to feed the entire global population. The objective is to ensure food security and enable everyone to have access to sufficient and nutritious food every day. This can be done by promoting resilient agricultural practices that increase productivity and production, and allowing equal access to technology and markets. Another objective related to food security is to halve global food waste at both the retail and the consumer level and reduce food losses along the production and distribution chains.
***Objective:*** Ensure food security while reducing environmental and social harm.
***Activities:*** Promote opportunities from ecological and fair agriculture, efficient irrigation and fertilization, safe and hygienic packaging, and efficient logistics.
***Example KPIs:*** Amount of avoided food waste, preservation of biodiversity.

### Good health and well-being

Given the interdependence between health and sustainable development, the ambitious target is to ensure health and well-being for all by 2030 through universal health coverage. The access to safe and effective medicines and vaccines for all is essential. Supporting research and development for vaccines is a key part of this process, as well as expanding access to affordable medicines.
***Objective:*** Improve health and quality of life.
***Activities:*** Promote healthy living and enable access to efficient and affordable healthcare and sanitation. Innovative health tech, automation in diagnosis and treatment can lower costs.
***Example KPIs:*** Access to healthcare and sanitation provided.

### Clean water

Water scarcity affects more than 40% of the world population and is likely to increase as global temperatures continue to rise because of climate change. Rising demand for water and increasing water pollution are other issues that need addressing. Universal access to safe and affordable drinking water will require substantial investments along the entire value chain in water infrastructure, technology, treatment and purification to improve water and sanitation quality.
***Objective:*** Access to clean water and sanitation for all.
***Activities:*** Invest along the entire value chain in water infrastructure, technology, treatment and purification to improve water and sanitation quality.
***Example KPIs:*** Drinking water provided; amount of water recycled, treated or saved.

### Clean energy

As the global population continues to rise, so does demand for cheap energy. The greening of the energy sector is underway and currently driven by massive investments in renewable energy sources, and the implementation of a smart and reliable power grid, amongst others.
***Objective:*** A low-carbon economy.
***Activities:*** Drive transformation by providing renewable energy and smart and reliable distribution systems.
***Example KPIs:*** Amount of renewable power generated; renewable energy generation equipment being manufactured.

### Innovative industry and technology

Technological progress is key to finding lasting solutions to economic and environmental challenges. Innovative companies adopt clean, lean, automated and digitalized production processes that ensure efficient use of scarce resources and reduce pollution.
***Objective:*** Promote sustainable industries and technological innovations.
***Activities:*** Enable optimized processes that ensure efficient use of scarce resources and reduce pollution.
***Example KPIs:*** Potentially avoided emissions (PAE), material efficiency, enabling circular economy.

### Equal opportunities

There has been a dramatic increase in literacy rates. But large disparities remain, with children from the poorest households and those living in rural areas in developing countries less likely to go to school. Achieving an inclusive and quality education for all is one of the most effective tools to improve opportunities. Financial inclusion helps to create jobs and promote gender equality, and ultimately reduces poverty.
***Objective:*** Address inequalities and raise standards of living.
***Activities:*** Provide high-quality education, innovative working solutions and access to financial services for underserved populations.
***Example KPIs:*** Access to financial services, provision of education for minorities or low-income students.

### Sustainable cities

More than half of the world's population today lives in urban areas, with migration from rural areas to cities continuing. Improved urban planning to make cities "smarter" and better connected to minimize the populations' carbon footprint is thus crucial. This requires large-scale investments in affordable housing with efficient heating and cooling, as well as in public transport systems.
***Objective:*** Minimize the environmental footprint of cities.
***Activities:*** Make cities "smarter" and better connected, and reduce the footprint of growing urban activities.
***Example KPIs:*** Cargo and passengers transported by rail and by public transport, respectively, the amount of $CO_2$ emissions that can be avoided compared to truck and car transport.

### Responsible consumption

Economic growth alongside sustainable development requires a reduction of our environmental footprint. One way of achieving this is through a careful selection of what we consume. This change is already underway, as consumers turn to brands with high ESG credentials and jump on the bandwagon of the circular economy.
***Objective:*** Adapt to changing consumer preferences and trends towards more environmentally and socially responsible manufacturing and promotion of such products.
***Activities:*** Focus on companies with high ESG credentials through the entire value-chain or that practice a socially responsible extraction of natural resources.
***Example KPIs:*** Promotion of a circular economy and low footprint of supply chains.

# Assess company impact

Our investment process includes an assessment whether the company's activities are aligned with our own impact pillars, whether they support at least one of the SDGs, and how they contribute to the key performance indicators we measure.

This combines the aforementioned two-step approach with the principles of the theory of change. Investing in listed impactful companies, while not immediately increasing impact, may ultimately accelerate the transition to a more sustainable economy.

For a systematic evaluation, we ask ourselves the following questions to better understand whether a company can achieve the desired impact:

- Does the company have a strategy to expand the activities that we consider impactful?
- Can the company adapt its products and services according to the theory of change?
- What are the characteristics of the management team and how does it shape the corporate culture and behavior?
- Do the company's products and services have an attractive market potential?
- Is the company measuring its impact achievements and does it report on them?

Furthermore, our investment process includes a systematic analysis of ESG risks. We don't invest in companies that give rise to severe controversies or are in breach of international industry norms and practices such as those defined by the UN Global Compact or the OECD Guidelines for Multinational Enterprises.

# Engage and measure

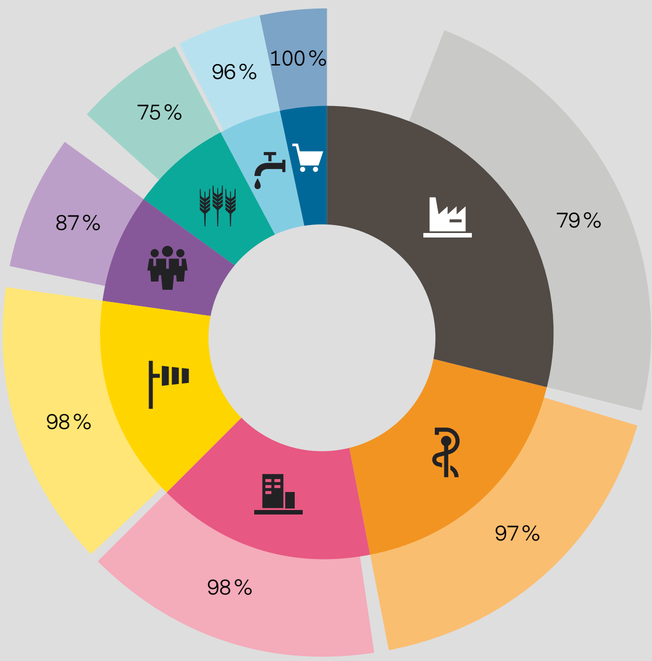
**Investor impact: active ownership through voting and engagement**
Our intention as investors and fund managers is to actively engage and communicate with the companies we are invested in. On these occasions, we place a strong focus on topics related to our impact objectives. We encourage companies to improve their sustainability reporting, which entails detailing how their products deliver beneficial impact over the entire life cycle. We also contact the companies whenever controversial issues emerge in independent sustainability reports or in the news, requesting additional data so that we can form our own opinion. This has become an integral part of our research activities prior to an investment and during the holding period.

Furthermore, exercising voting rights is an essential part of impact investing and thus part of our duties as fund managers. We therefore execute all our voting obligations at our investees' annual shareholder meetings. To obtain the best possible result, we have partnered with a specialist consultant providing proxy voting and collaborative engagement services adapted to our goals and investment methodology.

**Company impact: contributing to impact pillars and SDGs**
Companies should be carefully selected and contribute to one of our eight key impact pillars and to one or more of the UN SDGs. To measure the positive impact, the relevant revenues and potential contributions to the various KPIs should be identified. The relevant data then needs to be consolidated on portfolio level and disclosed in a report.

**What is a purity factor?**
An analysis of companies' revenue mix leads to an assessment of individual "impact-relevant" revenue segments, or portions of it. The consolidated results are shown below as the purity factor in each impact pillar of an illustrative portfolio. The inner circle shows the portfolio's allocation to the eight impact pillars, while the outer circle represents the percentage of the relevant revenues within each pillar.

**Purity factor in each impact pillar**




**Investment exposure by impact pillars**

| | |
|---|---|
| Innovative industry and technology | 28.9 % |
| Good health and well-being | 18.2 % |
| Sustainable cities | 15.6 % |
| Clean energy | 14.6 % |
| Equal opportunities | 7.7 % |
| Sustainable food and agriculture | 7.3 % |
| Clean water | 4.6 % |
| Responsible consumption | 3.1 % |

Source: Vontobel; allocation of a representative portfolio, for illustrative purposes only

**SDGs provide a framework to identify companies' positive contributions**

In parallel, activities of companies and portfolio holdings can be matched to SDGs. We particularly focus on the SDGs relevant for our eight impact objectives. As a guidance, a SDG compass[4] can be used to establish how individual companies can work towards realizing the set goals.


Source: Vontobel; allocation of a representative portfolio, for illustrative purposes only

**How to monitor key performance indicators**

A precondition of a credible impact offering is an asset managers' ability to regularly measure KPIs. The latter should be coherent with global criteria as defined by IRIS+ , a globally recognized system with standardized impact indicators. IRIS+ is the generally accepted impact accounting system of GIIN that leading impact investors use to measure and manage their impact. The IRIS+ framework ensures a reasonable level of consistency in impact claims and reporting.

**Key Performance Indicators**

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Sustainably produced food / distribution of it | Access to healthcare provided | Education provided | Drinking water provided | Renewable power generated | Waste management | Access to financial services provided | Cargo / passengers transported | Circular economy | Potentially avoided $CO_2$ emissions |
| Preserved biodiversity | | | Water recycled / treated / saved | Renewable energy devices shipped | | Minority involvement | | | Carbon footprint |

[4] GRI, UN Global Compact and WBCSD, "SDG Compass, The guide for business action on the SDGs," 2015

# Appendix

**Sustainable Finance Disclosure Obligations**
The implementation of the EU's Sustainable Finance Disclosure Regulations (SFDR) requires financial market participants and financial advisors to be much more transparent when promoting financial products as sustainable or based on ESG criteria. Investment firms now have to provide details of policies on the integration of sustainability risks and objectives in their investment processes and demonstrate that their products actually meet the ESG or sustainability claims used to market them. They must also disclose adverse impacts on sustainability issues at both entity, financial product and service level. These disclosures must be made on the investment firms' websites and in pre-contractual documents. Additional disclosure obligations relating to the periodic reporting for ESG or sustainability products will apply from Jan 1, 2022, when the Sustainable Finance Taxonomy regulation (see next paragraph) also enters into force.

**Sustainable Finance Taxonomy regulation**
At EU level, the Sustainable Finance Taxonomy Regulation spells out a common language to be used by investors, issuers and policymakers alike. The taxonomy is a uniform classification system distinguishing sustainable economic activities from non-sustainable ones. It supplements the SFDR, creating additional disclosure obligations. The regulation sets performance thresholds (technical screening criteria) for different sectors, such as energy, transport, agriculture, water supply and buildings. Their economic activities must substantially contribute to at least one out of six environmental objectives defined in the regulation and do no significant harm to any of the other objectives (See figure below). Social objectives will be announced during the course of 2021. The activities must also comply with the minimum social safeguards defined by the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organization (ILO) on Fundamental Principles and Rights at Work and the International Bill of Human Rights. The implementation of the first two environmental objectives – the climate change mitigation and adaptation objectives – will be implemented from Jan 1, 2022, while the four other objectives will enter into force from Jan 1, 2023. This means that asset managers that offer funds in Europe and Switzerland that are classified as environmentally sustainable will, as of these dates, have to explain how and to what extent they have used the aligned Taxonomy when determining the sustainability of their funds.

**The six environmental objectives of the EU's Sustainable Finance Taxonomy regulation. Social objectives will be published during the course of 2021**

| | |
|---|---|
| **Climate change mitigation** | **Climate change adaptation** |
| **Sustainable and protection of water and marine resources** | **Transition to a circular economy** |
| **Pollution prevention and control** | **Protection and restoration of biodiversity and ecosystems** |

Source: Vontobel, SFDR

**Regulatory Technical Standards**
The Regulatory Technical Standards (RTS) on ESG disclosures have been developed by the European Supervisory Authorities under the EU Regulation on sustainability-related disclosures in the financial services sector (SFDR), and were published in February 2021. They aim to strengthen protection for end-investors by improving ESG disclosures on the principal adverse impacts of investment decisions and on the sustainability features of a wide range of financial products. This will help to respond to investor demands for sustainable products and reduce risk of greenwashing.

# Contact us

**We would welcome feedback or suggestions from investors and companies to help us further develop our impact report.**

**For companies**

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