INSINGER GILISSEN
A QUINTET PRIVATE BANK

OUR APPROACH TO SUSTAINABLE INVESTING

FOR MARKETING PURPOSES

WHAT IS SUSTAINABLE INVESTING?

Sustainable investing is an umbrella term for various investment strategies that seek financial gain while fostering long-term environmental and social benefits. By choosing to invest in companies or projects fostering sustainable development, investors can achieve real-world impacts, in addition to gaining financial returns, making it increasingly attractive for investors.

The definitions of sustainable investing can be quite broad and confusing. Often, it's seen as simply avoiding certain investments that aren't "sustainable" or finding investments that make an "impact" on society, both of which are hard to measure. At Quintet, we simplify our sustainable investing approach by applying environmental, social, and governance (ESG) considerations.

What are ESG considerations?

ESG considerations capture tangible, non-financial data that are important to company valuations. Below are a few examples:

- **Environmental** focuses on how companies impact the planet such as their carbon emissions, renewable energy use, and how their waste is managed.
- **Social** focuses on how companies treat people, including their employees, communities, and customers. Examples include fair labour practices, community engagement, and ensuring diversity and inclusion.
- **Governance** focuses on how companies are managed and make decisions. It includes having strong leadership, transparency, and ethical practices like avoiding corruption and ensuring accountability.

This approach differs from simply adopting an exclusions approach, which doesn't invest in so-called "sin sectors" such as tobacco, gambling or controversial weapons that don't align with one's values. We believe sustainable investing isn't only about aligning portfolios to our values; it's also about using more information to make better long-term investment decisions.

WHY SUSTAINABILITY MATTERS?

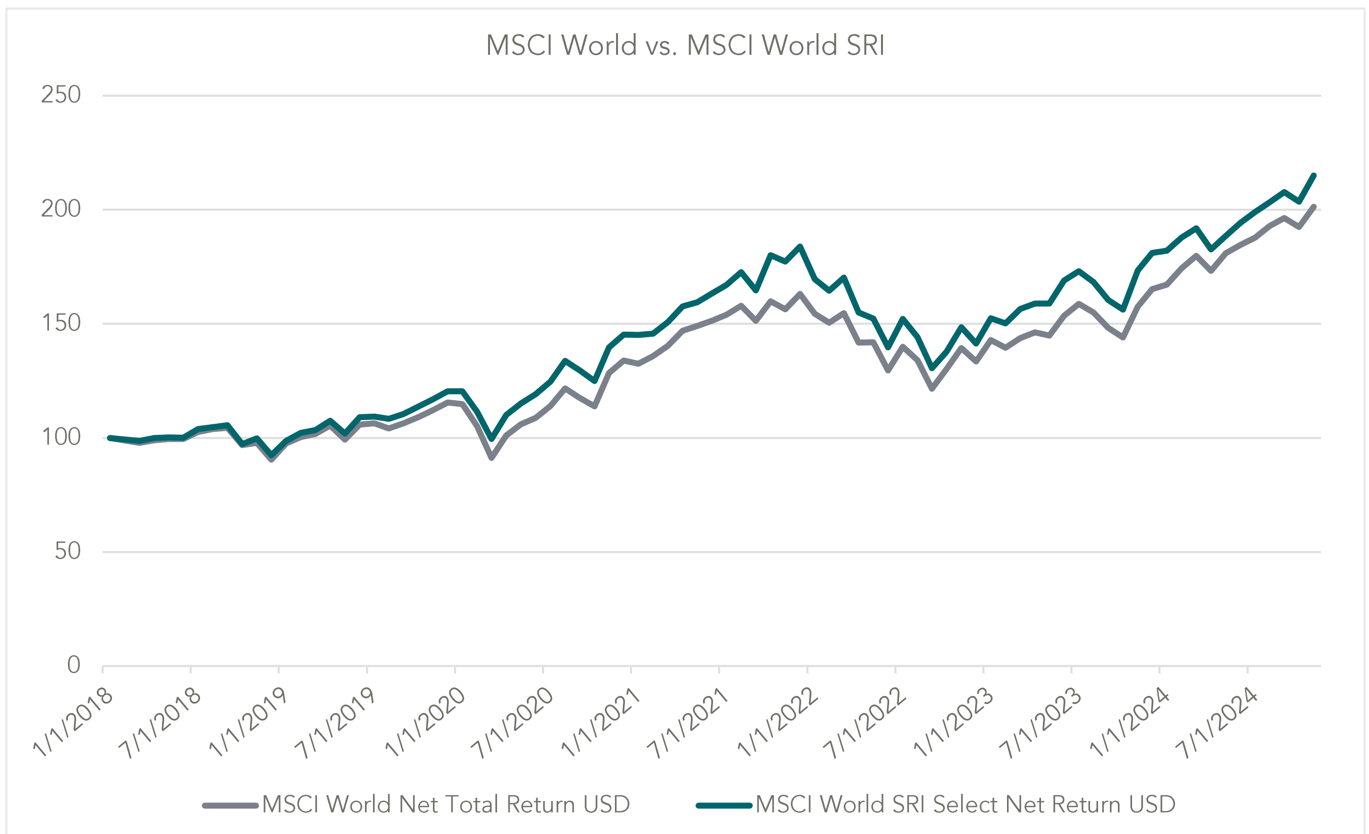
The past few years have seen a marked shift in society's attitudes towards sustainability, which has spurred change in policy, regulation, and innovation. At Quintet, we believe sustainability matters because it is not just about environmental and social stewardship but also about financial performance, regulation, and societal trends.

Financial Performance: Research consistently shows that incorporating ESG criteria enhances returns. Companies that integrate ESG practices exhibit better operational efficiency, lower costs of capital, and improved stock performance. For example, the MSCI World Socially Responsible Investment (SRI) Index has outperformed its non-SRI counterpart by 9.9% over six years cumulatively. These investments offer strong returns while aligning with societal values.

Regulation: Stricter regulations and corporate commitments to net-zero emissions are driving asset flows. Businesses worldwide are adapting to new standards, making sustainability a critical competitive advantage. Furthermore, large stimulus packages such as Europe's Green Deal and Biden's Inflation Reduction Act in the US are in place to promote the energy transition and clean transportation.

Societal Trends: The trend towards more sustainability is also visible in consumer behaviour. Younger consumers have a stronger focus on sustainability and are adapting their consumption and purchasing behaviour accordingly. According to a recent study[1], the majority of Gen Z shoppers (born between 1997 and 2012) demand sustainable retail and most are willing to spend 10% more on sustainable products.

PERFORMANCE OF THE MSCI WORLD SOCIALLY RESPONSIBLE INVESTMENT (SRI) INDEX



Source: MSCI. Past performance is not an indicator of future performance

[1] Versace, Abssy: World Reimagined, How Millennials and Gen Z Are Driving Growth Behind ESG. Available at Nasdaq.com 23-09-2023

HOW WE INVEST SUSTAINABLY

Having established the importance of sustainability in investing, we now focus on how we integrate ESG into our investment decisions.

Fund assessments

Regulation doesn't only impact company processes, but how we invest, too. In 2021, the Sustainable Finance Disclosure Regulation (SFDR) came into effect, which aims to increase transparency in the financial sector, making it easier for investors to compare the sustainability of different investment strategies. The regulation requires funds to classify themselves into one of three categories, depending on their approach to sustainability:

1. **Article 6 funds:** These funds may integrate sustainability considerations into their investment decision-making process but do not specifically target environmental or social outcomes.
2. **Article 8 funds - known as "light green" funds:** these promote environmental and/or social characteristics, ensuring investments align with certain sustainability criteria, while not having sustainability as the primary objective.
3. **Article 9 funds - Often called "dark green" funds:** these are focused entirely on sustainable investments, targeting measurable positive environmental or social impacts as their main objective.

In addition to the SFDR categorisation, we use a rigorous due diligence process comprising interviews, questionnaires, and holdings analysis to give a more nuanced assessment of funds to determine their attractiveness regarding sustainability, costs, risk and return.

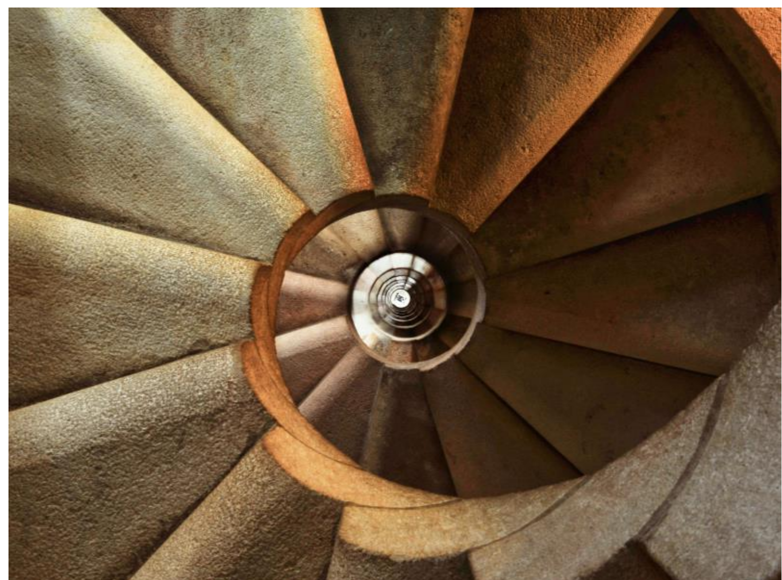
The SFDR categorisation and our additional assessment allows us to select the best funds from across the sustainable spectrum and, for our flagship funds, ensure that at least 85% of our investments are aligned with light green characteristics, within which a minimum of 20% are dark green investments.

Examples of light green investments:

To identify light green investments, we analyse the effects of ESG factors on a company. For example, how a paper manufacturing company is managing the impact of climate change on its timber supply chain and the risks associated with deforestation regulations or extreme weather events affecting raw material availability. Similarly, for a fashion company that produces shoes, we may evaluate how it mitigates risks related to supply chain disruptions in sourcing materials like cotton or synthetic fibres, or how it addresses concerns about ethical labour practices and environmental standards in manufacturing. This analysis considers potential impacts from natural catastrophes, reputational risks, trade risks, liability risks, and any social impact on companies.

Examples of dark green investments:

For dark green investments, we consider what impact a company has on the environment and/or society. For instance, an electric car company reduces greenhouse gas emissions by transitioning consumers from internal combustion engines to zero-emission vehicles. Similarly, a telemedicine provider can enhance accessibility and efficiency in healthcare delivery, use renewable energy sources, and adopt circular economy principles to reduce waste.



DATA

Before we invest in companies, we use 190 environmental and social data points for our analysis. Being driven by data and our proprietary materiality matrix, ensures the right data point is used for the right purpose. Being evidence-driven, provides a consistent view allowing for comparability.

We have observed that higher ESG ratings are generally positively correlated with valuation and profitability and negatively correlated with volatility.

EXCLUSIONS

While we believe ESG investing goes beyond simply avoiding certain sectors or practices, we acknowledge there are certain activities and industries that fundamentally conflict with our values and vision for a sustainable future. As a result, we exclude them from our portfolios to ensure alignment with environmental, social, and ethical standards.

These exclusions include companies that: violate the UN Global Compact, are involved in controversial weapons such as cluster munitions and white phosphorus, and those that derive more than 10% of their revenue from thermal coal.

We also aim to avoid companies that have significant involvement in industries like tobacco, gambling, alcohol, adult entertainment, and genetically modified organisms.

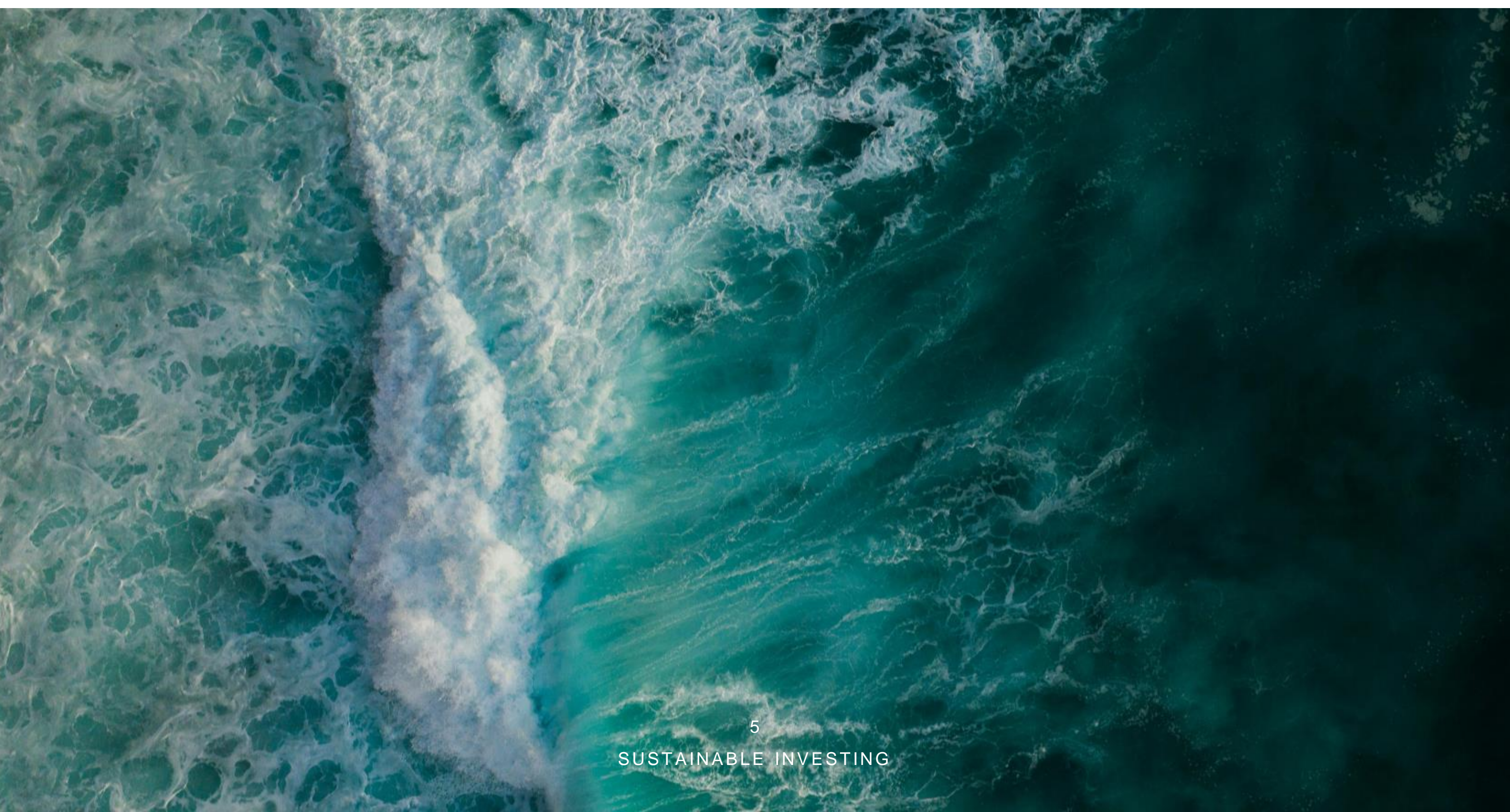
ACTIVE OWNERSHIP

Active ownership is a fundamental tool for sustainable investing, where investors engage directly with the companies they invest in to promote better governance, environmental practices, and social responsibility. This involves using shareholder rights to influence corporate behaviour through voting at shareholder meetings, engaging in constructive dialogue with management, and advocating for changes that align with sustainable and ethical goals.

We believe we can create better outcomes for our clients by actively engaging when we invest and seek to vote at all shareholder meetings of the companies in which we invest for our clients.

RISK AND CONSIDERATIONS

As with all investments, ESG investing is not without risks. Some include, but are not limited to, concentration and non-diversification risk, foreign investment risk, risks associated with a lack of transparency, volatility risks, and macro risks. Additionally, ESG investments may face challenges such as regulatory risks due to evolving standards, greenwashing concerns where companies misrepresent their ESG credentials, data limitations or inconsistencies in ESG ratings, sector-specific risks depending on the focus of the ESG strategy.



Talk to us

Do you have any questions on sustainable investing? Please reach out to your Client Advisor. She or he is happy to answer them. Not yet a client? Get in touch via our Contact web page or call (+31) (0)6 1164 63.

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