VP Bank Sustainability Score

In addition to returns and risk, sustainability is an increasingly important criterion in investment decisions. However, there is no uniform definition. This is why VP Bank has developed a sustainability score that measures the level of sustainability of an investment on the basis of multiple dimensions. The aim is to have as broad a basis as possible. Investors might also use the score as an indicator for opportunities and risks from a sustainability perspective. And it allows a comparison between different financial products, such as stocks, bonds, or funds.

VP Bank incorporates sustainability criteria into the assessment of investments. Our belief is that sustainable investing is beneficial to all investors if put into practice properly. Numerous scientific studies[1] have shown a neutral or positive performance effect.
While there is no uniform definition of sustainability, there is a broad consensus that ESG factors best summarize the criteria. Specialized rating providers determine the extent of a company's impact on the environment (E), how it behaves when dealing with different stakeholders (S) and how high the quality of the corporate governance (G) is. The VP Bank Sustainability Score (VPSS) is broad based because sustainability is more than ESG for us. More specifically, the score consists of five sub-components:

1. ESG rating
2. ESG momentum
3. Business practices
4. Business activity
5. Sustainable Development Goals (to be added later on)

Each of these sub-categories is assessed based on a specially developed methodology. The VP Bank Sustainability Score was designed in such a way that, in addition to its obvious positive impact on sustainable economic activity, investments with a high value also have a better long-term risk/opportunity ratio.

1. ESG rating

The starting point of the VP Bank Sustainability Score is the ESG rating by MSCI, a data provider. It is composed of the basic components of the environment (E), social affairs (S) and governance (G). This classification results in a sustainability profile of an enterprise, a state or state agency and funds. ESG factors show how, for example, a company is prepared to deal with future risks such as climate change or changes in society like changing consumer habits. Depending on the sector and type of the asset class, relevant factors for each sector are used.

Results: Our rating scale ranges from «Insufficient» to «Excellent».

Minimum requirement: All individual securities and funds must at least have a BB rating in order to qualify for our recommendation lists. We exclude the lowest two rating grades within the ESG Rating Methodology, B and CCC. In addition to this minimum requirement for individual securities, we also set a high standard for the portfolios of the VP Bank Risk Optimised ESG funds. The funds shall have an ESG rating that is at least equal to or better than their benchmark.

In the case of third-party funds and ETFs, a minimum of the portfolio has to be covered by MSCI. The proportion of companies with a B and CCC rating should be lower, but at most the same as that of the regional reference setting. Breaching of certain levels will lead to a reduction of the score.

2. ESG Momentum

The momentum indicator measures to what extent and in what direction the ESG rating has changed. We reward companies, governments or sovereign debtors that improve their sustainability rating. Those who pay little or no attention to the ESG aspects and therefore suffer a deteriorating score will be penalized. Scientific studies[2] have shown that investments with a positive ESG momentum tend to perform better than the overall market. Taking the rating momentum into account, preference will be given to those that could benefit from an ESG rating premium in the future. The advantage lies within the timeline, since many professional investors are only paying attention to ESG ratings and are not allowed to buy shares or corporate bonds under their statutes until the rating has been issued.

Results: Improvement or worsening of score.

Minimum requirement: None. The momentum indicator affects the overall score positively or negatively, but does not result in an exclusion of a recommendation.

In the case of third-party funds and ETFs, we pay attention to the net result of the securities held with a rating improvement less those with a deteriorating rating.

3. Business practices

Bribery, exploitation and child labour are examples for business practices that are illegal or a breach of international standards. This subcomponent assesses the behav-

[1] Peace, Busch and Bassen (2015): ESG and financial performance; aggregated evidence from more than 2000 empirical studies; Journal of Sustainable Finance & Investment, Volume 5, Issue 4, p. 210-233, and Clark, Feiner and Viehs (2015): From the stockholder to the stakeholder; How sustainability can drive financial performance

[2] Giese et al, Foundations of ESG Investing (2019): How ESG Affects Equity Valuation, Risk, and Performance The Journal of Portfolio Management; Volume 45

ior and business policy of a company. VP Bank is guided by the three internationally recognized standards

«UN Global Compact», «United Nations Guiding Principles for Business and Human Rights» and «International Labour Organization (ILO) Labour Standards», as well as the controversies identified by MSCI. These are assessed separately, as certain aspects are not included in the ESG rating at all or not included enough. For example, in our methodology, the violation of competition law by which a company is investigated by the authorities may lead to exclusion if it is classified as «very severe». In other cases, bonus points, such as for good business conduct, and deductions are made for «severe» controversies.

Results: Exclusion or improvement or worsening of score.

Minimum requirement: A breach of the above mentioned international standards or a «very severe» controversy leads to an exclusion from our stock and bond recommendations. VP Bank ESG funds also exclude direct investment in such companies.[3]

In the case of third-party funds and ETF recommendations, the accepted share of investments held by the fund with breaches of international standards and «very severe» controversies is very low.

4. Business activity

For this subcategory, the business areas of a corporation are analyzed. The main focus is on ethical criteria that are matched against the revenue or the practices of a company. There is a gradual approach in the VP Bank methodology. «Critical» business areas are defined as tobacco, gambling, thermal coal, nuclear[4] and controversial weapons. Above a 5 % threshold these activities lead to an exclusion, yet a tie to controversial weapons is enough to be excluded. This means that a company cannot be recommended as a buy, because of its business activities. «Borderline» encompasses adult entertainment, fire arms, nuclear energy, genetically modified organisms (GMOs), oil sand[4], profit-making prisons[4] and fur[4]. Again, a threshold of 5% of the portfolio or revenue applies, if not measurable, the mere link to any of these issues will reduce the score. Conventional weapons, fossil fuels[4] and animal welfare are classified as «questionable» and may have a negative impact on the score if the level exceeds 5% or if there is a link. If there will be a greater focus on sustainability in the future, all of these business areas will be under scrutiny. Accordingly, there is a risk that investors will exit such assets on a large scale, which may lead to higher capital costs and lower performance. Companies that do not operate in any of the above mentioned areas will receive a bonus.

Results: Exclusion or improvement or worsening of score.

Minimum requirement: Companies that breach thresholds in business areas we classify as «critical» won't be recommended. VP Bank ESG funds are not allowed to invest in such assets.[3]

The portfolio of third-party funds and ETFs may only contain a very small proportion of companies operating in areas considered «critical».

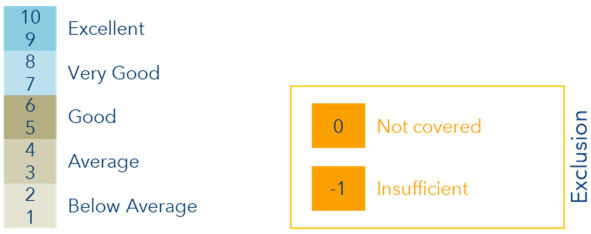
5. Consistency with the UN Sustainable Development Goals

This sub-category matches corporate activities with the United Nations (UN) Sustainable Development Goals. The UN targets are at the heart of the Agenda 2030 and take the economic, social and environmental dimensions of sustainable development into account. This sub-factor is not yet included in the sustainability score (as of November 2020). It will be added later on.

VP Bank Sustainability Score (VPSS)

Whether on a portfolio, individual investment or fund level, the assessment from a sustainability point of view results in a sustainability score (as described above). The scale ranges from -1 to 10, where -1 is «Insufficient», 0 is «Not covered». Scores from 1 to 10 are separated into different categories and recommendations have to fall into any of these.

VP Bank Sustainability Score



[3] In case of a downgrade,, the adjustment will take place with the next rebalancing.
[4] available on a single title level only

VP Bank Sustainability Score

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Important legal information