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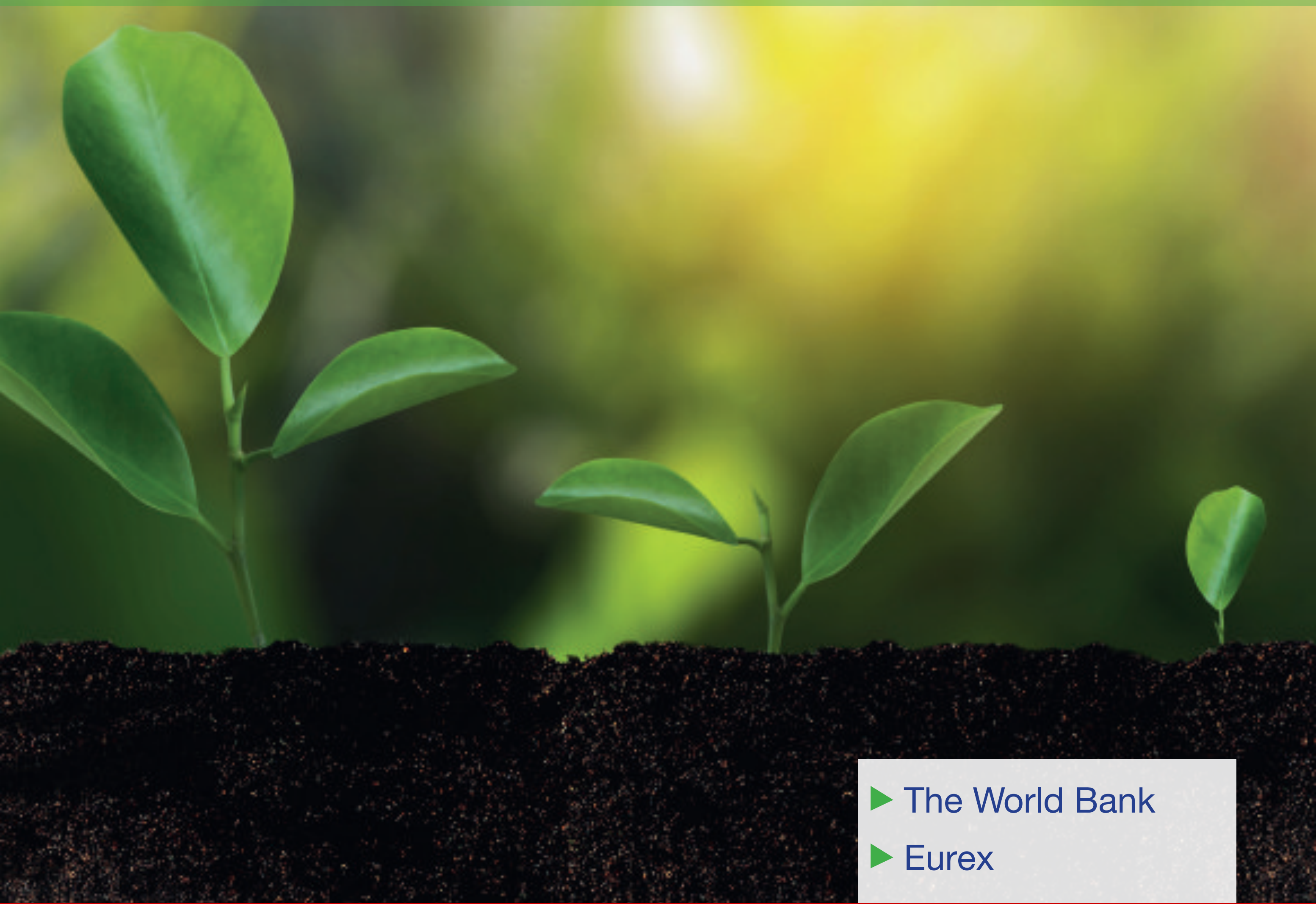
Pension Fund Service

European Pension Funds – ESG



- The World Bank
- Eurex

Interview: Metzler Asset Management on sustainable investment services

Eurex spoke to Daniel Sailer, ESG Advisory, Sustainable Investment Officer at Metzler Asset Management to get an insight into Metzler Asset Management's sustainable investment approach.

Metzler is Germany's oldest bank with an unbroken tradition of family ownership. Metzler concentrates on providing individual capital market services for institutions and demanding private clients in four key areas: Asset Management, Capital Markets, Corporate Finance and Private Banking.

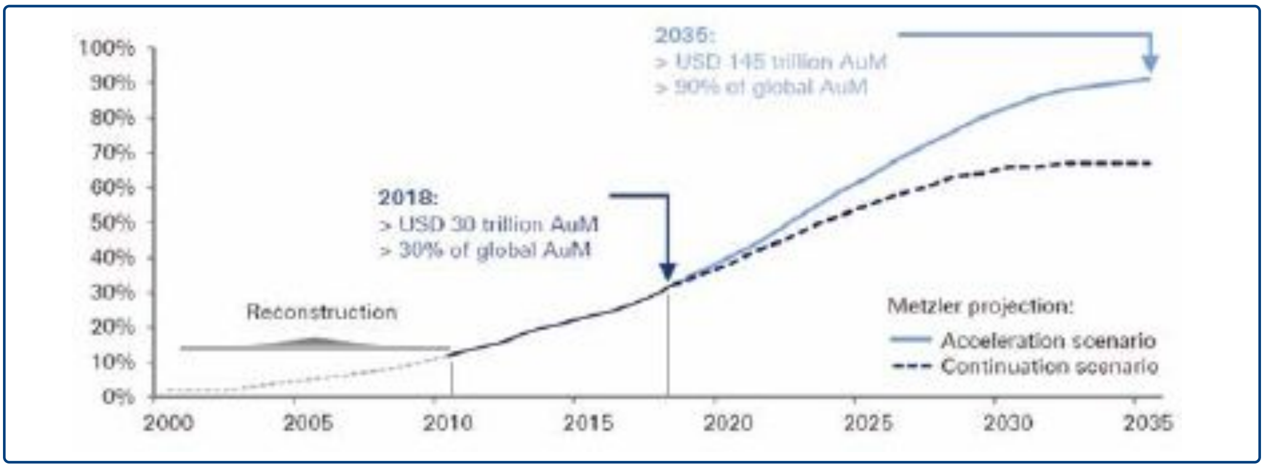
What is Metzler's range of sustainable investment services?
Metzler Asset Management focuses on four areas. 1st Sustainable Investment Office (SIO) and ESG Board, defining the sustainable investment strategy (together). Deciding on sustainability issues for portfolio management and investment management companies (German KVGs) and advice on ESG issues. 2nd Active dialogue and cooperation's. More than 250 dialogues per year with company management on ESG issues. Since 2014, cooperation with Bank of Montreal Global Asset Management (BMO) for active dialogue with companies and proxy voting. Furthermore, we have a cooperation with MSCI ESG Research and ISS-ESG (previously ISS-oekom). 3rd Customized solutions using QbrickS. Developing solutions tailored to client needs. Sustainability approach combined with established investment strategies and optimized risk-reward metrics. 4th Reporting where we create ESG reports for capital investments. Automated reporting for special AIFs and mutual funds as well as for master funds and their sub-segments. And also, the integration of regulatory requirements and initiatives.

How does the concept of sustainable investment look like in particular?
Metzler Asset Management has 20 years of experience in sustainable investment. We are operating client centric and have built a framework where we advise investors and implement their specific sustainability preferences in an economic framework. Our core strength is the transparency and holistic ESG integration which is built on the concept of fundamental ESG integration and a proprietary tool called QbrickS. As an active manager we incorporate material ESG factors in the evaluation of business models and assess their future viability. QbrickS is a multi-stage process that uses a central investment logic to combine tangible financial elements of sustainable investment (1) with the potential of risk premiums (2) and thematic allocation based on sectors and countries (3). The focus is always on identifying value drivers that help increase and stabilize excess returns over a given benchmark. This process provides important information to be taken into account in the discretionary selection of securities for a client portfolio.

Sustainable Investment Office which is the competence centre for ESG strategy, ESG integration, communication, advisory service and management of active engagement and proxy voting oversees the ESG processes. Plus, the ESG Board which is the superordinate committee responsible for coordinating all ESG-relevant issues; permanent members include: CIO/Managing Director; Co-Head of Equities, Senior Portfolio Manager, Fixed Income, Head of Multi-Asset, Head of Sales and Sustainable Investment Officers.

How do you see the trend on Asset under Management (AuM) for ESG or sustainable investing evolving?
We believe the proportion of global AuM invested according to sustainability criteria will increase towards 100% by 2035 (see table No. 1). The demand shift towards securities from issuers with sustainable business models is not yet fully priced in. This is an investment opportunity worth positioning for across asset classes.

Sustainable investing: a global standard in 10–15 years

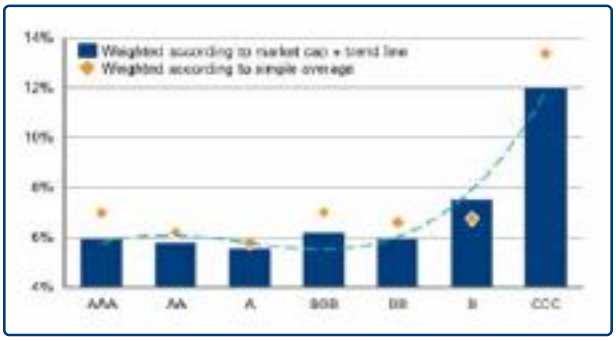


Sources: Metzler, Global Sustainable Investment Alliance (GSIA)

What do you see in Europe on ESG ratings versus cost of capital?

Let's take an example on European equities. We took a closer look on the STOXX Europe 600. The weaker the ESG rating by MSCI ESG Research, the higher a listed company's weighted and market-price-based cost of capital*. Therefore please see graphs below for different aspects on costs:

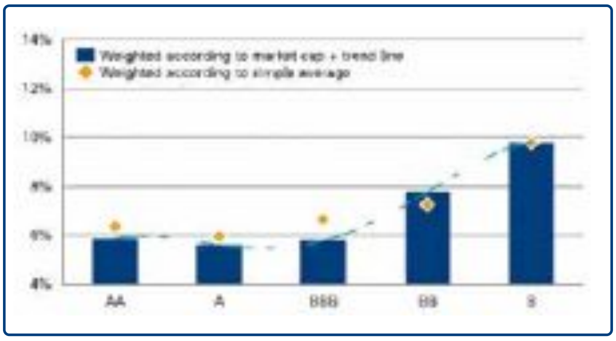
A) Cost of capital according to sector specific ESG ratings (in %)



The rating scale of MSCI ESG Research can be divided into three categories:

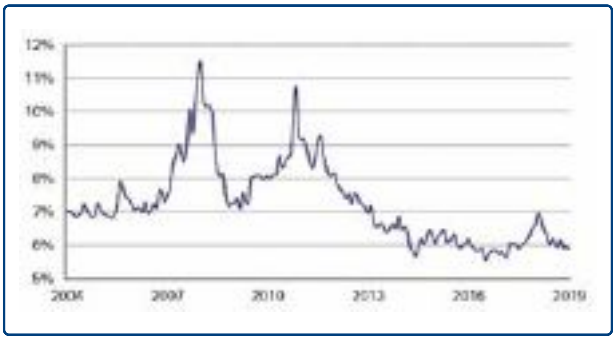
- 1. leaders (AAA-AA), 2. average (AABB) and 3. laggards (B-CCC).
- Companies in category 3 have a higher weighted cost of capital than the industry average

B) Cost of capital according to cross sector ESG ratings (in %)



- A significant increase in the cost of capital was incurred for companies rated BB or B

C) Cost of capital of the STOXX Europe 600 (in %)



- Total cost of capital for companies in the STOXX-600 universe is currently just over 6%, a historically very low level
- This leads to a lack of market correction and unprofitable companies can continue to refinance themselves

* Weighted cost of capital = [cost of equity x (equity ratio)] + [cost of debt x debt ratio x tax shield]
Sources: Metzler, Thomson Reuters Datastream

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