Sustainable Investing at Banque Heritage

What is sustainable investing?

Sustainable investing involves considering not only financial returns but also environmental, social and governance (ESG) factors when making investment decisions with the long-term return of an investment portfolio in mind.

There are several possible approaches to sustainable investing:

- **ESG Integration** where investors explicitly incorporate ESG factors in their investment decisions. It aims to manage risk and improve long-term returns by assessing ESG risks in the investment process.
- **Exclusionary Screening** focuses on avoiding harmful areas of involvement such as controversial weapons, tobacco, alcohol, gambling, fossil fuels, nuclear power, human rights violations, environmental violations, animal testing and cruelty and adult entertainment among others.
- **Best-in-class investments** consists in selecting the most sustainable companies within each sector based on ESG criteria. It allows investors to build a portfolio of ESG leaders while avoiding large skews toward sectors more associated with strong ESG practices or better disclosure.
- **Thematic investment** involves investing in companies that align with a sustainability-related theme, such as climate change, waste management & pollution or the food crisis. It aims to promote positive social and environmental change.
- **Impact investing** involves making investments with the explicit goal of producing tangible social and/or environmental benefits while also achieving a financial return. Typically, these investments are linked to direct placements, such as private debt, private equity, and real estate all the way to micro-financing.

Why is it worth investing sustainably?

From an economic perspective, research demonstrates a connection between ESG issues and financial performance. When considering the risk perspective, the ability to distinguish between successful and unsuccessful companies in a rapidly evolving risk landscape becomes invaluable. Ineffectively directing investments toward companies with significant negative impacts can not only harm portfolio profitability but also have broader repercussions on the overall market's returns. Furthermore, it's important to note that policy and regulatory frameworks are on track to become more stringent in the realm of responsible investing, reinforcing the importance of aligning with evolving standards.

How do we approach sustainable investing at Banque Heritage?

Banque Heritage approaches sustainable investing mainly through exclusionary screening and ESG-related scorings.

- Exclusion implies that overall exposure in terms of revenue to potentially controversial industries such as alcohol, tobacco, adult entertainment, gambling, controversial weapons, and palm oil, shall not exceed 5%.

- ESG-related scoring is a risk-focused approach. The ESG Risk Ratings measure the degree to which a company's economic value is at risk driven by ESG factors and go from 0 (best) to 100 (worst) and are translated into globes (1 – worst to 5 – best)
  In our ESG mandates a minimum of 90% of the portfolio is rated. The investments are made in the companies whose ESG risk ratings don't exceed the score of 40 (out of 100) all the while ensuring that the overall portfolio rating doesn't exceed 30 (out of 100) as per Sustainalytics[1] scale.

Potential risks associated with sustainable investing:

- *Lower returns: some sustainable investments may have lower returns than traditional investments.*
- *Lack of standardization: there is currently no standardized definition or framework for what constitutes a sustainable investment.*
- *Regulatory risks: Regulations related to sustainable investing are evolving and companies may face fines for regulatory misdemeanours if they do not have a robust ESG program.*
- *Liquidity risks: Some sustainable investments may be less liquid than traditional investments.*
- *Greenwashing: Greenwashing can be a problem for ESG investing because it can mislead investors into thinking they are investing in companies that are more sustainable than they are.*
- *Lack of positive impact: ESG investing may not necessarily deliver positive planetary impact.*

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[1] *An independent ESG and corporate governance research, ratings, and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies.*