Sustainability

Implementation of ESG Integration

As responsible investors, we see it as our fiduciary duty to consider ESG (environmental, social, governance) risks and opportunities. We are convinced that by integrating ESG analysis in our investment process, we are able to mitigate risks, identify growth opportunities and estimate the monetary value of intangible assets, thus ensuring the long-term performance while at the same time making a positive impact on society and environment. We focus our ESG research on evaluating the corporate purpose and responsibility of a company and apply ESG factors to the investment process and decision.

1. ESG Risk Assessment Approach

ESG analysis is based on a risk-oriented perspective, since it can be safely assumed that companies which are not run in a sustainable manner or whose business model by itself is not sustainable (e. g. oil and weapon businesses) are exposed to increased risk.

The risk-based ESG approach is not applicable to the collateralized transfer of insurance risks to the capital market (insurance-linked securities/CAT bonds), as the event risk for the insurer is the same, whether the insured object is a residential property or a military installation.

In the risk transfer business, the investor does not invest in the balance sheet of an insurer, but assumes part of the insured event risk which is reinsured through the CAT bond (special purpose vehicle – SPV). So, it is the insurance book of business which is the focus of the ESG analysis or, in other words: Who receives the insurance benefit in the case of an event?

The conventional asset owner's approach refers to the collateral of the CAT bond. Since the sole purpose of the collateral is to provide security for the maximum payable insurance benefit at the lowest possible risk, it is not part of the investigation model and irrelevant for a decision to invest in CAT bonds.

We currently distinguish two types of ESG analysis which depend on the specific business segment of the company and are very different in nature:

- Cashflow-oriented ESG analysis of the insurance book in the insurance-linked securities business (CAT bonds)
- Conventional ESG analysis following the asset owner's or issuer's approach (insurance bonds und life settlements)

While we implement our ESG investment policy in our UCITS funds, we try to transfer it to our AIF funds as well, so we can manage all funds through a consistent ESG investment policy.

2. Our ESG Integration Approach

Avoid – We avoid companies which, due to their business activity, standards or conduct, conflict with our principles and values and exclude them from our investment universe. We only invest in companies with sustainable business models and long-term growth perspectives.

Support – With our investments, we aim to make an economic and social impact that goes beyond the common RoI thinking. We achieve this by investing in catastrophe bonds, since natural disasters pose great challenges for the economy in general, the insurance industry in particular and society as well.

Analyze – Besides the common financial ratios, we also analyze the ESG practices of the company. Our proprietary ESG research system enables us to assess the impact of the company on the corporate environment – and the impact of the corporate environment on its business activity – to capture as many risks and opportunities as possible.

Live Engagement – We engage in an active ESG dialogue with companies and industry players along the value chain. Our engagement is enshrined in our company policy. First and foremost, we work together to develop best practice standards for the CAT bond fund industry. Since we do not invest in stocks, the exercise of voting rights is no means to this end.

Communicate – We ensure full transparency in all things ESG, primarily through our website, public discussion in the industry, reports, guidelines and insights.

Learn – Continuous professional training is an important element in understanding the significance of ESG and to implement the criteria rigorously. This also ties in with our ambition to extend our pioneer status in the CAT bond market.

3. ESG Approaches

Plenum Investments Ltd. uses three ESG approaches: exclusion, norm-based and impact investing approaches. While for capital market-based transfers of insurance risks, we follow all three approaches, in the segment of subordinated insurance bonds only the exclusion and norm-based approaches are pursued.

Exclusion approach – Exclusion of investments in companies or sectors involved in ethically controversial industries such as palm oil or arms manufacture.

Norm-based approach – Based on internationally recognized norms and standards, for example in the field or human rights. It aims to reduce the exposure to companies posing a reputational risk because of their controversial business activity.

Best-in-class approach – In this approach, which is currently not applied, the companies with the highest ESG scores within a sector are selected. So, in addition to exclusion criteria, positive factors are taken into account as well.

Impact investing approach – Impact investments aim at making a positive and measurable social and ecological impact besides the financial return, bringing the control processes of a company into focus. More and more frequently, the UN Sustainable Development Goals (SDG) are used as a benchmark for evaluating the positive impact of sustainable investments.

4. ESG Investment Approach (ESG Investment Policy)

The investment philosophy in terms of sustainability aims at finding a balance between a risk-return optimized portfolio construction and the implementation of sustainability. To this end, the current level of transparency in the CAT bond market is matched with the desired requirements as to the underlying insured risk and the imperative of transparency. This is a dynamic process adjusted according to the progress in the disclosure of information by CAT bond sponsors.

In the field of "insurance bonds", investments are made in subordinated regulatory capital (tier 1 and tier 2) of insurance companies. The issuer is the focus of the ESG analysis. The Center for Social and Sustainable Products (CSSP/yourSRI) is an independent research and consulting company and has been tasked with the analysis and evaluation of ESG criteria (environmental, social, governance).

The investment approach and processes are defined by clearly specified criteria which are binding rules for the selection and investment processes. Apart from product-specific investment objectives and legal investment limits, they also include ESG criteria. In the fund-specific investment process, investment options are reviewed and assessed with regard to ESG criteria. The portfolio management systematically analyzes the targeted investments, using a wide range of environmental, social and governance factors based on independent studies, ratings, publications, research and internal standards. Information on the investment process is outlined and published in the annual sustainability report.