ESG Statement

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EMCORE
House of Asymmetry

Sustainability as a social and prosperous trend in the financial sector

Awareness of the sustainable use of natural resources and concrete measures to combat climate change have now become key requirements for companies. In particular, the high targets for CO2 and greenhouse gas reductions under the United Nations Paris Climate Agreement of late 2015 have spurred an energy transition and accompanying legislative measures. Not only Switzerland, Liechtenstein and the EU have committed to climate neutrality by 2050, China also wants to be climate neutral by 2060. In order to achieve the various national targets, framework conditions such as the CO2 Act in Switzerland or the Green Deal are adopted as a comprehensive investment plan.

The issue of sustainability is also gaining importance on the financial market. While in the past it was primarily a requirement of religiously or ethically motivated groups, the importance of environmental, social and governance (ESG) factors as a component of long-term, future-oriented corporate management is becoming increasingly clear. Meanwhile, new business models have emerged and the integration of sustainability into business strategies and investments is measured through environmental and social KPIs (Key Performance Indicators) and integrated into the financial assessment of companies. Thus, companies are challenged to meet the increased demands of investors for measures to improve their environmental, social performance and proper governance, as well as adequate and meaningful ESG information.

The volume of sustainable investment strategies has significantly outperformed the market average in recent years. Investors have increasingly invested in corresponding companies or financial products. In the last published market report, growth rates of well over 60% were recorded for this in Switzerland. This corresponds to an invested volume of CHF 1,163 billion in sustainable investments. In Germany, for example, the volume of private investors in this segment almost doubled last year. Two factors are relevant here. The perspective that financial benefits can be achieved by taking ESG criteria into account is confirmed both by empirical studies and by the concrete performance measurement of ESG-optimized portfolios. In addition to many experiences that the long-term risk of investment portfolios can be reduced, the relative stability of many portfolios during the Corona crisis has shown that the robustness of portfolios can be improved. As a result, the various sustainability initiatives in the financial market are receiving a steady influx of investors (such as the UNPRI). Founded in 2006, the initiative, in which asset managers and asset owners voluntarily commit to six principles of responsible investing, has now been signed by over 3300 investors. As more and more investors integrate sustainability as a central element in their investment decisions, investor pressure on companies is increasing, whether through critical demand from analysts or shareholder resolutions.

Furthermore, specific regulatory measures in the area of sustainable finance are creating additional momentum. On the investor side, pension funds in the EU, for example, will have to report how they incorporate ESG factors under IORP II from 2019. The EU is also trying to increase the relevance of sustainability aspects among financial market players by imposing higher transparency requirements for ESG integration at the organizational and product level. The EU Action Plan on Financing Sustainable Growth also aims to improve the management of financial risks based on ESG factors and to focus capital flows more on sustainable investments. These measures are also relevant for Swiss financial service providers if they offer financial services in the EU area or serve EU clients in the EU area.

Greater transparency on ESG factors as a key factor

Greater consideration of ESG factors by the financial market requires transparency at two levels. That analysts can make an assessment of the ESG factors of companies or sovereigns, a great deal of information is required. This involves strategic aspects, such as an ESG policy or the structure of corporate governance. Statements are also required on positioning in the product area, to what extent innovative solutions to global challenges exist or can be developed. To assess ESG performance, the focus is on concrete KPIs, such as the information on CO2 emissions or social factors such as the relationship with suppliers or health and safety standards, through to information on negative incidents such as the violation of labor and human rights or cases of serious corruption. With the demands of the financial market, companies have expanded their reporting on ESG factors. In addition, standards have been developed for better comparability. This allows the evaluation of the companies to be extended. Access to capital, either as equity or debt, is increasingly influenced by these criteria. Meanwhile, a number of specialized ESG rating agencies offer aggregation of the extensive data.

The second level of transparency concerns the information investors receive about their financial products. In addition to financial ratios, they are also interested in the impact of investments on the environment and society. For this purpose, information on the ecological footprint or the contribution of the plants to the 17 defined sustainable development goals is of interest. Reporting on these factors still poses a greater challenge for many financial institutions. However, the prerequisite is that investors' value perceptions can be reconciled in advance of an investment or in the form of regular reporting. Institutional clients have it somewhat easier compared to private investors, as they can obtain additional information via additional databases or specialized service providers.

The European Union is gradually increasing the pressure on financial service providers to be transparent in the direction of sustainability. The disclosure requirement is intended to increase transparency with regard to the inclusion of sustainability and the corresponding risks. This makes statements on the consideration of sustainability criteria in the processes mandatory for all suppliers and introduces a classification of products in terms of their sustainability.

It will be easier for investors to make a decision or choice as to whether and which ESG criteria are taken into account in their investment decisions, or which additional moral and ethical aspects are included. Greater engagement as well as the social environment with the positive experience at the performance level increases the willingness to invest in this prosperous subject area.

Sustainability at EMCORE

As a highly specialized asset manager, we are committed to the principle of sustainability above all in our investment activities. It is primarily about realizing a long-term investment result in the best interest of our customers. We have therefore come to the conclusion that sustainable corporate management and sustainable investment activities, taking into account environmental, social and corporate governance aspects, are elementary for a successful and future positioning. The inclusion of ESG aspects alongside general investment aspects such as expected return, risk management, etc. helps us to align the interests of our very important customers and investors even better with social objectives. Accordingly, EMCORE has already committed to compliance with the UNPRI Guidelines in June 2019. With this voluntary commitment, we will integrate ESG criteria even more systematically into our investment practices and implement corresponding strategies and policies.

In the process, ESG performance is continuously improved and permanently reviewed so that we are always in line with our defined values and also meet the increasing demands of the market.

How do we implement sustainability in the investment process?

To achieve long-term investment returns, we have long focused on companies with solid and sustainable corporate governance. Certain exclusion criteria have already been applied in the investment activity. Investments in companies with significant activities in the areas of outlawed and controversial weapons, gambling, pornography and alcohol (exception beer and wine) have always been avoided. At the end of 2020, a sustainability mission statement was adopted that forms the basis for our investment activities. This specifies principles for general investment activities as well as specific sustainability products. Integration into the investment and risk management process will be achieved through the following approaches:

As a first step, we exclude companies from our investment process where serious and systematic violations of the principles of the UN Global Compact (human and labor rights, serious environmental degradation, corruption) are identified. Companies that mine coal or generate significant shares of electricity from coal (sales tolerance 30%) are also not included. In addition, we have defined minimum ESG requirements for all securities in our portfolios. Sensitive industries must also meet higher criteria for us to pursue them further. These measures are complemented by engagement activities and a special inclusion of climate risks. All these set parameters are intended to help implement the theme of sustainability for our customers and investors in such a way that our investments are resistant to high market volatility, generate a positive return, and are in line with the overarching investment objectives. We will continue to actively pool existing resources and define further measures and targets in the near future in order to always meet the very high customer requirements and be in line with legal requirements.