Multilayered Investment Process

Global Equity Market

Exclusion Criteria

Quant Screening

Thematic Pocket

Business-Like Investing Approach

Sustainability Assessment

Investment Decision

Post-Investment Activities

Monitoring

Voting at GMs

Engagement
As a first step, BL Sustainable Horizon applies an **Exclusion List**, excluding producers of:

- Cluster ammunitions,
- Anti-personal mines,
- In general, controversial weapons.

Excluding companies generating more than 5% of revenues in the following activities are excluded from the investment universe:

- Weapons,
- Tobacco,
- Gambling,
- GMOs,
- Alcohol,
- Nuclear and Fossil Energy.
Multilayered Investment Process

Quantitative Screening process using MSCI’s ESG Manager

MSCI attributes every company an environmental score, a social score and a governance score between 0 and 10.

- E score: carbon emissions, water stress
- S score: labour management, human capital development
- G score: anticompetitive practices, corruption, tax transparency, corporate governance

Companies showing good ESG performances and programs score higher. In order to be eligible for BL-Sustainable Horizon, a company has to fulfill the following 2 criteria:

- The average ESG score \( \left( \frac{1}{3} \times \text{E score} + \frac{1}{3} \times \text{S score} + \frac{1}{3} \times \text{G score} \right) \) should be above 5.
- Neither the E score, nor the S score nor the G score should be below 4.
The fund includes a **Thematic Pocket** consisting of companies contributing directly or indirectly to:

- greater use of renewable energies,
- more efficient use of natural resources,
- healthy and natural food,
- use of ecological building materials,
- efficient use of water,
- improvement of hygiene conditions in emerging countries,
- improvement of the state of health and general well-being,
- manufacture of products with a longer life span, use of recyclables,
- use of less toxic chemicals,
- safe, equitable and decently paid working conditions,
- improvement of working conditions in countries with insufficient legal standards,
- improvement of animal living conditions.

These companies will also be selected because of their alignment to the UN Sustainable Development Goals, “a *universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.*”
Multilayered Investment Process

Business-Like Investing: Never Compromise on Quality

**Competitive Advantage**
- Strong business model,
- Differentiating factors,
- Entry barriers,
- Pricing Power,
- Sustainable growth prospects,
- Ability to capitalize on strengths in case of economic slowdown.

**Profitability & Free Cash-Flow**
- Profitability (ROCE) exceeding cost of capital,
- Recurrent generation of free cash-flow,
- Low capital intensity (unless it is the competitive advantage),
- Manageable gearing – especially in hard times.

**Capital Allocation**
- Reinvestment within the range of the competitive advantage,
- Acquisition of businesses creating added value,
- Share buybacks / dividend payments,
- Improving of the structure of the balance sheet.

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Long–term value creation

Sustainability Assessment
Investment Decision
Multi-layered framework

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Multilayered Investment Process

Valuation Framework

- Objective: define a stable framework to arrive at a disciplined buying policy.
- Model based on normalised numbers – avoid pitfalls of the classic DCF model.
- The fair value of a company is computed using the free cash-flow it generates. It consists of:
  1. The company’s “no-growth value”,
  2. The growth multiplier.

No-growth value \times \text{Growth multiplier} = \text{Fair value of the company}

- Value of the company based on its current activity
- Value of the future growth of the company $GM = f(\text{ROE}, g, k)$
- Fair value of the company if it continues to grow profitably
→ **Sustainability Assessment**: Every company’s sustainability performance is analysed during a qualitative review by the fund manager and the ESG analyst. The objective of this step is to identify relevant issues that have not been highlighted by the quantitative ESG screens. This qualitative assessment is based on controversy data provided by MSCI as well as BLI’s own ESG research, based on publicly available data.

→ Using the findings of the qualitative assessment, the fund manager decides on whether to invest or not.
Companies included in the portfolio undergo daily screenings to ensure

BLI started voting in 2018 and will extend this activity to include the companies in the BL-Sustainable Horizon in early 2019. Voting at BLI is carried out with the help of ISS and an sustainable proxy voting policy is applied.

Companies can be engaged about their sustainability performance if the fund-management team deems it necessary, useful and appropriate.