DVFA Code for Sustainability[1] in Investment Processes.

Proposition #1:
Sustainability[2] is relevant for all investment professionals[3].

Proposition #2:
Fiduciary duties require investment professionals to consider criteria of sustainability.

Proposition #3:
Investment professionals deliberate the consequences of their investment decisions, focusing mainly – but not exclusively – on financial impacts.

Proposition #4:
Sustainability is a function of the motivation, rather than the specific object, of an investment decision.

Proposition #5:
Sustainability is dependent on intrinsic motivation. Parsimonious regulation is conducive to motivation, while dirigistic and pedantic regulation is debilitating.

Remarks, definitions and use case examples

Re 1:

Sustainability is relevant for all investment professionals.

Considerations of sustainability can broaden the mindset of investment professionals, have the potential to improve the effectiveness of risk management and can help tap new sources of return. For auditors, sustainability opens new fields of professional activity, as data and reports from companies answering the demand from markets require validation. For risk managers, sustainability demands that they reflect and process risks related to sustainability in their risk models, especially in the area of lending.

With this proposition, DVFA rejects conventional distinctions, e.g. between mainstream and SRI investors. Sustainability is not a niche issue!

Re 2:

Fiduciary duties require investment professionals to consider criteria of sustainability[4].

There is ample evidence that E, S and G-criteria are good indicators for the expected longevity and "fit for future" of companies and investments. Investment professionals who ignore sustainability criteria are failing to live up to their professional obligations by ignoring information supportive of a well-reasoned investment decision. If an investor mandates that an asset manager explicitly *not* consider ESG-criteria, then this is surely a dubious exception that must nonetheless be followed by the asset manager – unless the asset manager has decided to refuse the mandate on principle. In all other cases, investment professionals can and should recommend to clients that ESG-criteria be considered, and should apply these principles within their mandates.

DVFA's stake in sustainability is not motivated ideologically, but rather primarily economically: we consider social, ecological and corporate governance-related aspects to be conducive to performance (in terms of a long-term Sharpe Ratio). Hence, the primary objective is not the social-societal impact of the investment decision, but its sustainable economic performance[5].

Re 3:

Investment professionals deliberate the consequences of their investment decisions, focusing mainly – but not exclusively – on financial impacts.

Investment professionals are fiduciaries for the concerns and interests of their clients. Ultimately, clients' interests are also socially and ecologically rooted. Investment professionals can only fully account for the distinct diversity of these interest if: a) they know their clients' preferences and b) they understand the social and ecological impacts of their own investment decisions. The obligation to deliberate sustainably is thus a direct consequence of their fiduciary duties.

While there is no denying that there are still some investors in financial markets for whom the sole investment criterion is optimization of financial outcomes, and who ignore the social and ecological impacts of their actions, such attitudes cannot be justified by referencing fiduciary duties.

Stewardship is the hallmark of investment professionals owning their fiduciary duties. Stewardship is characterized, on the one hand, by taking clients' and beneficiaries' preferences into account, and on the other hand by seeking to exert influence on companies and issuers in the spirit of clients' preferences – or as an expression of individual responsibility as a fiduciary.

Re 4:

Sustainability is a function of the motivation, rather than the specific object, of an investment decision.

Investors differ in terms of their values, and therefore pursue different investment styles. As a consequence of varying investment motives, different definitions of sustainability are inherent to financial markets. For instance, investing in a green bond from a mining company seeking to raise funds for remediation of ecological damage is a sustainable investment for some. For others, on principle, funding mining companies cannot be regarded as a matter of sustainability.

By the same token, different investment styles necessitate different types of sustainable investing. Some would argue that sustainability demands excluding all non-sustainable stocks or securities – however defined – from an investment universe, while others search for the most sustainable investments even in non-sustainable industries ("best-in-class") or for those reorienting fastest towards sustainability ("best-in-progress").

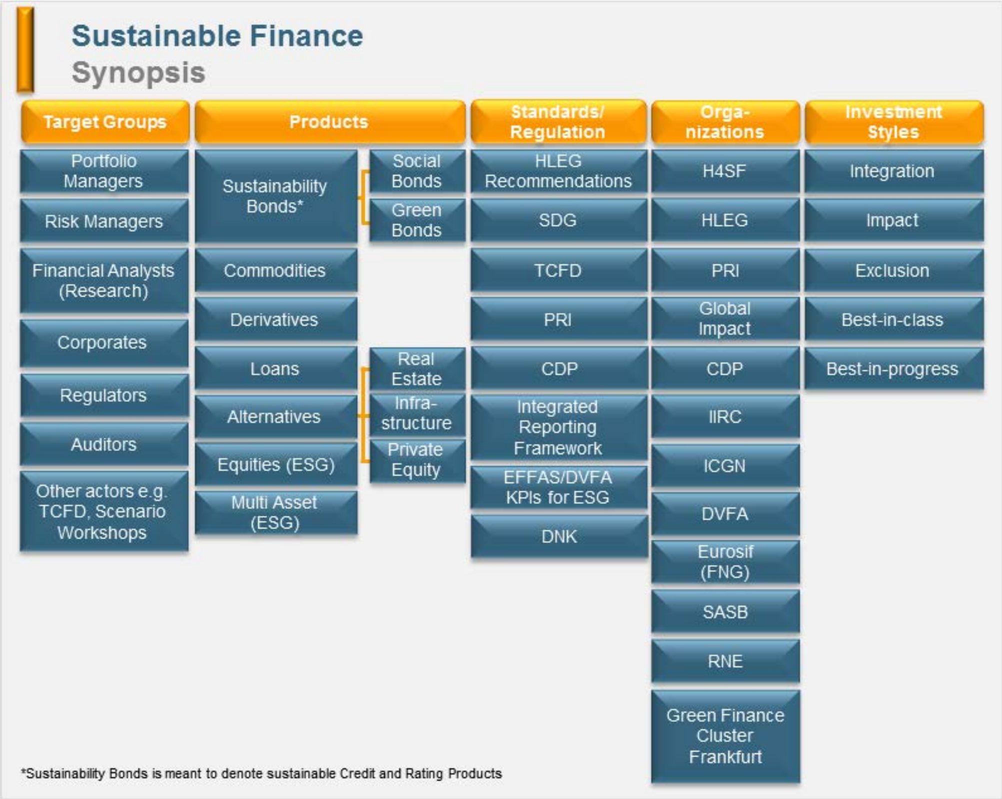
The gap between values and investment styles is not a disorder that needs to be overcome, but rather a sign of diversity that must be preserved because it fosters the long-term stability of financial markets – and hence society as a whole. We acknowledge that this proposition distinguishes our position from virtually all views on sustainability, since most views on Responsible Investing (and its numerous synonyms) take the *asset* as the starting point of their definition.

Re 5:

Sustainability is dependent on intrinsic motivation. Parsimonious regulation is conducive to motivation, while dirigistic and pedantic regulation is debilitating.

Convictions and investment styles are dynamic, and can adapt much more easily to changing market conditions than any micro-focused, pedantic regulation could ever compel them to.

The objective of regulation within this mindset should be to define consistent and beneficial conditions in financial markets, that are conducive to investment professionals practicing sustainable investing based on an intrinsic motivation. Under no circumstances should regulation seek to influence financial markets politically or intervene in investment decisions, e.g. through directives.



"Topics in Sustainable Finance". Note: no claim to completeness.

Endnotes:

[1] The scope of our paper is oriented on sustainability in the definition of Sustainable Finance as: "A financial system that is stable and tackles long-term education, economic, social, environment issues, including sustainable employment, retirement financing, technological innovation, infrastructure construction and climate change mitigation," as suggested by the High-Level Expert Group on Sustainable Finance of the European Commission in its Interim Report dated July 2017.

[2] Sustainability is used interchangeably with terms such as ESG, ESG Integration, SRI, RI, etc.

[3] Investment professionals, in the usage of DVFA, are defined as: "Individuals who professionally design, manage or supervise investment products, make or evaluate investment decisions or analyze credit, solvency or credit risks. A definition in German is offered here: http://www.dvfa.de/verband/mitgliedschaft.html.

[4] Strictly speaking, fiduciary duties refer exclusively to asset managers. However, we extend the scope of this definition by including intermediaries, e.g. sell-side analysts, investment consultants, sustainability rating agencies, etc.

[5] If impact and performance are equally outcomes of investing, then we clearly welcome this. However, in cases of a conflict of objectives, performance must take priority, unless the client explicitly mandates that impact should receive primacy.