

DVFA Expert Committee Impact

**DVFA-Framework for Re-
sponsible Investment
Policies and Impact
(DVFA FRIPI)**

(Translation of German Original)

October 2024

Contents

<u>Initial situation</u>	3
<u>Overview of the DVFA FRIPi responsibility measurement tool</u>	4
<u>Category 1: Regulatory defined sustainability</u>	7
<u>Category 2: ESG behaviour of target investments</u>	8
<u>ESG granularity and minimum score Definition : More granular is stricter</u>	8
<u>Best-in-Universe (BiU) is more consistent than Best-in-Class (BIC)</u>	8
<u>Selection of sustainable benchmarks and benchmark deviations</u>	9
<u>Sustainability measurement frequency: more often is better</u>	9
<u>Category 3: Company-Impact</u>	10
<u>Exclusions: More is stricter</u>	10
<u>Company impact: SDG sales or output-oriented instead of process-oriented net measurement</u>	11
<u>Company impact: Process-oriented SDG scores are the equivalent of ESG ratings</u>	12
<u>Category 4: Investor-Impact</u>	12
<u>Additional capital: Additionality is not absolutely necessary</u>	12
<u>Exercising voting rights is positive</u>	13
<u>Shareholder and stakeholder dialogue is important</u>	13
<u>Use signalling or naming and shaming?</u>	14
<u>Overarching element: Divestments</u>	14
<u>In conclusion</u>	14

Initial situation

What constitutes sustainable investments and their "impact" has been the subject of intense debate for many years. Numerous regulations in the European Union (EU) provide frameworks and minimum requirements. However, there is no generally recognised definition for sustainable investments and the impact they generate.

There are sometimes very different views among investors and market observers. DVFA has accompanied the development of sustainable investments in various formats over the past few years and provided guidance¹. For example, the DVFA Expert Committee Impact published the Guide to Impact Investing in October 2023. This guideline encourages the holistic inclusion of impact in investment analyses and its consideration as an integral investment objective.

The Impact guide shows how impact can be achieved via various impact channels and asset classes. It introduces the important distinction between investor impact and company impact. Investor impact can be created through stewardship activities and thus have a significant influence on the direction of a company. Company impact is the (net) positive impact created by the invested company. Also used synonymously as investment impact.

Building on the PRISC tool first published in February 2021, we are now – in a comprehensively revised version – providing guidance for the implementation of sustainability principles at the level of investors and investments with the FRIPI tool and embedding this in the current regulatory framework. The FRIPI guidelines address the two important pillars of company (investment) and investor impact.

With this framework, we want to help both investors and providers to develop their own holistically responsible investment policy. The tool is intended for all investment providers and investors who do not yet have a holistic sustainability investment policy, for example asset managers, foundations and family offices as well as asset managers. Our aim is to contribute to clarity and make it possible to differentiate between and assess the various forms of responsible investment. This guide also explains assumptions and interpretations of the Excel-based FRIPI tool. Overall, the two documents are intended to provide investors with a practical orientation for defining, analysing and comparing sustainable investment approaches.

¹ See various documents under: [Publications & Consultations – DVFA e. V. - The Professional Association of Investment Professionals](#). The first published version of the DVFA PRISC dates from February 2021 and new see [DVFA Guide to Impact Investing](#)

Overview of the DVFA FRIPI responsibility measurement tool

The German Association for Financial Analysis and Asset Management (DVFA) has therefore developed an instrument for the holistic development and measurement of responsible investment policies for investors and investment portfolios.

The DVFA deliberately does not want to prescribe responsibility assessments, but rather to give investors and providers of financial investments the opportunity to determine these themselves.

The tool is therefore made available to interested parties as a modifiable calculation model. In addition, this guide is made available to investors as modifiable texts. The provision of these modifiable documents is intended to enable investors to make individual modifications to the documents and thus easily create a customised FRIPI version. For example, individual exclusion lists² can be defined or more emphasis can be placed on changes than on the status quo achieved, for example with the Principal Adverse Indicators (PAI).

The current 2024 version of the tool comprises four assessment categories³ with 18 elements.

These categories are

- 1) Regulatory defined sustainability with 5 elements
- 2) Target investment ESG behaviour (ESG process) with 5 elements
- 3) Company impact with 3 elements
- 4) Investor impact with 4 elements

Divestments are the 18th and overarching element. In our impact guidelines, we categorise this element under the "capital allocation" impact channel. However, divestments are not clearly differentiated in terms of company and investor impact.

For each element, 3 standard assessments ("light", "medium" and "consistently" sustainable) and their values or percentages are provided as a guide. In the standard version provided by the DVFA, all 18 elements are weighted equally. This is an exemplary presentation and not a DVFA weighting recommendation.

Based on these categories and elements and, if necessary, individual weightings, product offerings can be assessed holistically in terms of their sustainability in the next step.

In practice, the large number of assessment elements and the relatively high requirements for "best assessments" in our FRIPI tool mean that even products rated as particularly sustainable do not have very high sustainability fulfilment levels. Values of over 50 % can already be considered an ambitious and comprehensive sustainability strategy.

Another advantage of the FRIPI tool: Users can change the weightings, add categories and elements and change the assessment criteria. For example, as an additional, explicit element, the carbon footprint (or intensity) could be added as part of the company impact in category 3. We did not do this because it is typically included in ESG scores and PAI and we did not want to introduce double counting. The sustainability of the manager/provider of an offering, memberships/commitments or standards such as UN PRI or UN Global Compact or the fulfilment of seals, ratings could also be added. We have

² For example, compare (inter)nationally recognised filter sets, such as the FNG seal criteria/PAB/CTB criteria.

³ Compare [Methodology for Eurosif Market Studies on Sustainability-related Investments](#) by Timo Busch, Eric Pruessner, Will Oulton, Aleksandra Palinska, and Pierre Garrault from University Hamburg, Eurosif, and AIR as of February 2024

also deliberately not included these elements in order to avoid even greater complexity and overlaps in the categories.

Moreover, the DVFA FRIP tool does not explicitly include minimum criteria. A minimum criterion can be, for example, the complete exclusion of fossil energy production. If a product offering does not fulfil minimum criteria, it can be rejected – regardless of other sustainability criteria. Without minimum criteria, products that achieve a minimum score across several of the elements mentioned here would be approved.

The tool is basically suitable for all types of systems. To date, however, there is no database known to us that collates all the data required for such holistic product assessments, meaning that product assessments currently must be carried out manually. However, there are now some database providers that collate the European ESG templates (EETs) of investment funds. Some, but not all, of the sustainability information relevant to the assessment of investment funds can be taken from these databases. In the current version of the EET (version 1.1.2), for example, no information on divestment is requested. In addition, the granularity of the information differs: although the EET requires very specific information on the PAI indicators, the requirements for topics such as minimum ESG scores or the selection and design of any ESG benchmark are significantly lower. In addition, the EET only specifies targets for individual indicators, but not the actual degree of fulfilment. One of the biggest problems for users is that the calculation methods for the EET data are often not transparent and very different definitions are often used in practice, meaning that EET data is often not directly comparable with each other.

This means that portfolios can be assessed very differently depending on the design of the tool and the data used. The DVFA's plea is therefore that providers of sustainable products should publicly document the sustainability criteria of their products in a similarly comprehensive form as in this FRIP tool guide.

As a general rule, such responsibility scoring must be supplemented by a professional portfolio analysis to assess returns, risks, etc.

To categorise the later results, it should be mentioned once again: values of 100 % in the scoring are unlikely from our point of view. From a level of around 50 %, the scores typically indicate considerable sustainability.

FRPI categories and elements (excerpt)

Criterion	Category	Lfd. # new	Remark	Low/Night sustainable (1 point)	Medium (2 points)	Consistently sustainable (3 points)	Weighting (customisable)	Ideal points	Weight*Ide alpunkte	Example portfolio 1	Weight*Points Portfolio 1
EU taxonomy quote	Regulatory defined Sustainability	1	Regulation (EU) 2020/852 Taxonomy Regulation	>0 and < 5%	5 to 25%	>25%	5,6%	3	0,17	2	0,11
Do No Significant Harm (DNSH)	Regulatory defined Sustainability	2	Regulation (EU) 2020/852 Taxonomy Regulation Article 17	Relatively high negative effects	Medium negative impact	Minor negative effects	5,6%	3	0,17	3	0,17
Principal Adverse Indicators (PAI)	Regulatory defined Sustainability	3	Sustainable Finance Disclosure Regulation (SFDR)	Relatively high PAI count/weight	Average PAI Quantity/weight	Low PAI count/weight	5,6%	3	0,17	3	0,17
SFDR article	Regulatory defined sustainability	4	Sustainable Finance Disclosure Regulation (SFDR) Assignment by the provider	not applicable	Article 8	Article 8	5,6%	3	0,17	3	0,17
Sustainable Investment Quote (SFDR 2/17)	Regulatory defined sustainability	5	Sustainable Finance Disclosure Regulation (SFDR) compliance rate (40% entity-based is achieved by general equity indices)	Entity-based 40 to < 60% or activity-based 10-25%	Entity-based 60 to 80% or Activity-based 25-40%	Entity-based >80% or activity-based >40%	5,6%	3	0,17	3	0,17
ESG granularity	ESG behaviour of target investments	6	Aggregated ESG minimum score or separate standards for Environment (E), Social (S) and Governance (G) or more granular score	ESG aggregated with a minimum score of 25%	ESG aggregated with a minimum score of 50% (e.g. MSCI SRI)	E, S, G separately with a minimum score of 50% each	5,6%	3	0,17	3	0,17
ESG minimum requirements	ESG behaviour of target investments	7	Exclusion of securities with "poor" ESG ratings. The measurement is independent of the investment approach (BIC vs BlU).	<25% "worst" excluded	25-50% "worst" excluded	>50% "worst" excluded	5,6%	3	0,17	3	0,17
ESG Best-in-Universe or -Class	ESG behaviour of target investments	8	Comparison with all securities (best-in-universe) or just a selection (sector, country, etc.: best-in-class) or peer groups	Best-in-class ESG and climate transition benchmark (climate portfolio)	Medium-strict ESG benchmarks Paris-aligned benchmarks for climate portfolios	SRI (top 25% BIC-ESG Rated) or Best-in-Universe Top 30% ESG-Rated and/or for climate portfolios focus on the 25% of companies with the already lowest green house gas emissions.	5,6%	3	0,17	0	0,00
ESG benchmark deviation	ESG behaviour of Target Investments	9	Under/overweighting due to Sustainability criteria	max. 33% deviation from Benchmark weight	33% to 66% deviation from Benchmark weight	>66% deviation from Benchmark weight	5,6%	3	0,17	3	0,17
Sustainability measurement frequency	ESG behaviour of target investments	10	How often is current sustainability information (e.g. indicators) reported to customers?	Annually	Quarterly	Monthly or more frequently	5,6%	3	0,17	3	0,17
Exclusions (non-investment)	Company-impact	11	"Exclusion" refers to the primary business and 95 % exclusions	Fulfillment of the individual mandatory exclusions (at least 3-5 see e.g. PAI)	Mandatory exclusions plus 1-3 relevant additional exclusions	Mandatory exclusions plus >3 relevant additional exclusions	5,6%	3	0,17	3	0,17
SDG sales	Company-impact	12	UN Sustainable Development Goal (SDG-) Net sales share (alternatively: CapEX share) of all portfolio companies	Entity-based 40 to < 60% or activity-based 10-25%	Entity-based 60 to 80% or Activity-based 25-40%	Entity-based >80% or activity-based >40%	5,6%	3	0,17	3	0,17
SDG scores	Company-impact	13	How good are the investment-internal SDG scores	25 to 50%	50 to 75%	>75% (top 25%)	5,6%	3	0,17	2	0,11

Category 1: Regulatory defined sustainability

We have included 5 elements for this category and made suggestions for the classification of products. The 5 elements are the EU Taxonomy Quota⁴, the fulfilment of Do-No-Significant-Harm (DNSH) criteria⁵, Principal Adverse Impact Indicators (PAI)⁶, the respective SFDR article (6, 8 or 9)⁷ and the Sustainable Investment Quota (Disclosure Regulation or SFDR 2/17)⁸. With regard to the PAI indicators, we intend to survey the actual impact at this point. It is therefore not about the number of PAI indicators taken into account, but about their characteristics. The ESG scale proposed by the German government's Sustainable Finance Advisory Council⁹ or similar concepts such as the planned DIN standards or the ideas recently presented by ESMA, EBA or EIOPA¹⁰ can also be used as a supplementary assessment dimension (or to replace the criteria proposed above).

We consider the exclusion criteria of the Paris Aligned Benchmark (PAB) criteria, and the Carbon Transition Benchmarks (CTB) exclusion criteria defined by the latest ESMA Fund Naming Directive under Category 3/Element Exclusions.

Investors for whom the best possible compliance with regulatory requirements is important can, for example, decide to only make investments that have the highest possible taxonomy or sustainable investment ratios, have as few significant negative effects (DNSH) or indicators (PAI) as possible or fulfil the requirements of Article 8 or 9 of the SFDR.

The reference values used are important here. In principle, one can distinguish between two variants:¹¹

- "Activity-based approach": The actual sustainable share of a company's sales or investments is used as the sustainable investment.
- "Entity-based approach": Companies as a whole are regarded as sustainable investments¹².

If a company has a certain minimum share, such as a 30 % sustainable investment quota, the company can be allocated to the quota with a full allocation in the portfolio if the minimum value for allocation is exceeded in the case of "entity-based" definitions¹³. With an "activity-based" approach, on the other hand, only 30 % of the company's share in the portfolio is allocated to the quota in this example. We therefore use different minimum values for the two calculation methods.

However, investors should note that the regulation currently often only sets minimum criteria and does not take numerous elements into account: for example, the EU taxonomy still only includes environmental and not social objectives; low DNSH or PAI does not simultaneously mean high positive investment impact; the categorisation in Articles 6, 8 and 9 SFDR only covers investment funds and is based

⁴ Consecutive number 1 in the customisable DVFA FRIPI table

⁵ Sequence number 2 in the customisable DVFA FRIPI table

⁶ Sequence number 3 in the customisable DVFA FRIPI table

⁷ Sequence number 4 in the customisable DVFA FRIPI table

⁸ Sequence number 5 in the customisable DVFA FRIPI table

⁹ [Final recommendation of the SF Advisory Board on the ESG scale](#), which could even be used as an alternative for the complete category 1 "Regulatory defined sustainability".

¹⁰ ESMA: European Securities and Markets Authority, EBA: European Banking Authority; EIOPA: European Insurance and Occupational Pensions Authority

¹¹ In addition, investments in companies that have a strict science-based climate target (in this case SBTi) and want to decarbonise along a pathway could also be considered sustainable if additional measures prove that they are already on this target pathway, which is demonstrably in line with the Paris Climate Agreement.

¹² Entity-based approach, see p. 7 [Platform Briefing on SFDR](#). The different definitions have advantages and disadvantages, which we will not go into here.

¹³ In this example, this is the case with a "pass-fail" minimum value of up to 30 %. The entity-based or pass-fail approach can also relate to key figures other than turnover.

on numerous provider-specific criteria, whereby the allocation to Article 9 in particular is being regulated in an increasingly detailed and consistent manner; the role of SDG compatibility, investor impact and divestments is not addressed at all or only in a very rudimentary manner.

Category 2: ESG behaviour of target investments

The 5 elements in this category are the choice of sustainability benchmarks, ESG granularity, ESG weighting, minimum ESG requirements and the sustainability review frequency. The main focus is therefore on whether the target investments (companies or other organisations) take environmental, social and governance aspects into account in their work (ESG process) and how these can be assessed by investors.

ESG granularity and minimum score Definition¹⁴ : More granular is stricter

ESG indices usually work with aggregated ESG scores. Good corporate governance can thus compensate for a poor environmental score. We believe that a separate assessment of the criteria can contribute to the creation of more responsible portfolios. This means that a portfolio that uses a minimum ESG score of 50 % is generally less "responsible" than a portfolio that requires a minimum score of 50 % for each of E, S and G before a security can be included in the portfolio.

Explanation: If an aggregated ESG score is used, the following rough calculation can be made: Number of companies rated by the ESG data provider, e. g. 6,000. If only the top 50 % are allowed, that is 3,000 shares as eligible investments. If measured separately, the universe may be reduced much more, as there are far fewer than 3,000 companies that are also among the top 50 % in the E, S and G scores.

An ESG score can be made up of over 100 individual scores. However, requiring minimum scores for all criteria individually is not very practical, so we typically only expect this for E, S and G.

As a result of the approach described above, companies may remain in the investment universe that are not considered to be particularly sustainable, for example due to their sector affiliation, especially by retail investors. On the one hand, this must be clearly communicated to a potential investor; on the other hand, any strict exclusion requirements in relation to specific sectors must be addressed through further measures (see chapter Exclusions: More is stricter).

Best-in-Universe (BiU) is more consistent than Best-in-Class (BiC)¹⁵

Let us assume that only the 25 % best companies in terms of an ESG score from the initial universe may be included in a portfolio (BiU). Investors could wrongly assume that this would lead to a general exclusion of oil companies, for example. It is therefore important to create transparency and clarity about the procedure and, if necessary, to point out the need for exclusion criteria (see chapter Exclusions: More is stricter) if the exclusion of individual sectors is a clear objective of the investor.

However, as many investors do not want to deviate too much from broad indices (known as tracking error), they also allow the best energy producers in terms of ESG score to be included in a portfolio (BiC). This means that (the most "sustainable") oil producers are included in the portfolio. The same applies to bonds for country coverage. In this case, investors would use a BiC benchmark (criterion 6) instead of a BiU benchmark or give the benchmark criterion a low weighting overall.

¹⁴ Sequence numbers 6 and 7 in the customisable DVFA FRIPI table

¹⁵ Sequence number 8 in the customisable DVFA FRIPI table

As also shown in categories 3 and 4, however, the negative interaction of too many exclusions on the investor impact must always be weighed up, as this reduces the number of potential engagement partners. Exclusions and restrictions should therefore be targeted. We consider a product to be consistently sustainable (= 3 points) in this element from a 50 % universe restriction.

Selection of sustainable benchmarks and benchmark deviations¹⁶

Investors who are strictly sustainability-oriented overall can consider using (ambitious) sustainable benchmarks as their official benchmarks. This reduces the problem of responsible portfolios deviating from their benchmarks.

There are now more than 50,000 sustainable benchmarks¹⁷. In Germany, however, only relatively few of these are actively used – e. g. for index funds. There are currently no "standard" benchmarks for some investment segments. This applies in particular to numerous sector, theme and illiquid or cross-asset class investments. Frequently used benchmarks include, for example, ESG Leaders, SRI (Socially Responsible Investments), CTB (Climate Transition) and PAB (Paris Aligned) indices. CTB or ESG benchmarks with minor deviations from (non-sustainable) standard indices can be regarded as relatively undemanding. Combined SRI and PAB benchmarks, on the other hand, can be demanding. A fairly good indicator of the consistency of the sustainability requirements of benchmarks is the deviation from the standard index: the fewer investments the sustainable benchmark contains compared to the traditional benchmark, the more strictly sustainable it is likely to be.

Deviations from benchmarks can be measured using the average deviation. If all portfolio components are weighted exactly as in the index, the deviation is 0. If no portfolio component is represented in the index, the deviation is 100 %. A deviation of 50 % results if the index components are all weighted the same but on average 50 % differently or if 50 % of the index components are weighted the same and equally and all other portfolio components are not represented in the index.

However, there are probably still numerous benchmark gaps, for example in relation to illiquid but also impact investments. For benchmark-free investments, this assessment category can be weighted at 0 %.

Sustainability measurement frequency: more often is better¹⁸

The frequency dimension asks how often "responsibility-relevant" data is updated. Some ESG rating agencies and ESG ETFs do this once a year. With the help of automated text analyses, however, it is technically possible to find out about so-called incidents (events) very promptly and take their impact on ESG ratings into account. Changes to the portfolio can be made immediately and there is no need to wait until the annual ESG rating updates are available. It is important to bear in mind that annual ratings often take into account surveys or feedback from security issuers. More frequent ratings are often based on machine learning and cannot typically be influenced by issuers.

In the case of frequent changes, trading costs for implementation in the portfolio must be considered, among other things. However, more frequent adjustments are generally considered more "responsible" here.

¹⁶ Sequence number 9 in the customisable DVFA FRIP table

¹⁷ See [Index Industry Benchmark Survey](#)

¹⁸ Sequence number 10 in the customisable DVFA FRIP table

Category 3: Company-Impact

In this category, 3 elements in particular are taken into account: Exclusions (non-investment), SDG scores and SDG targets.

Exclusions: More is stricter¹⁹

In the "Exclusions" category, we assume that more exclusions fundamentally promote more "responsible" investments and also enable a higher weighting of impact-generating investments on the other side. However, more exclusions also mean moving further away from investments in the broad market. If only very few securities were permitted, the diversification of a portfolio could be significantly reduced and the potential investor impact via engagement and voting could suffer.

It is important to decide how an exclusion is defined. In some sustainable ETFs or funds, for example, or the indices on which they are based, there is often a note on exclusions stating that certain turnover shares are also permitted for "excluded" segments. We assume that an exclusion can only be considered as such if the issuer in question generates a maximum turnover share of 5 % in the respective sector²⁰. If, for example, tobacco production is excluded, then at least all companies with a 5 % share of turnover in this sector should be excluded.

For fund-of-funds structures and for funds that invest in both individual securities and target funds, transparent information on any differences with regard to the various assets is essential: if, for example, the exclusion of tobacco producers for target funds cannot be guaranteed due to a lack of target fund transparency data, this must be disclosed.

Ideally, the exclusions are also defined and structured in detail: if, for example, the tobacco trade is excluded, this can only apply to specialised retailers, but not to traditional food retailers or diversified wholesalers who also offer tobacco products. Suppliers and customers are typically not excluded: A luxury food manufacturer that does not produce tobacco itself may have suppliers and customers who are also active in the tobacco business.

The relevant exclusions can be based on ethical²¹ or regulatory criteria or particularly frequently used criteria (e. g. climate transition or Paris-aligned benchmark rules or the annual Sustainable Investments Market Report published by the Forum Nachhaltige Geldanlagen or the so-called association concept²² or PAI indicators).

Investors can also define minimum exclusions in their individual DVFA FRIPi scheme, e. g. fossil energy production and nuclear energy. They can specify that they only consider investments that fulfil these mandatory exclusions to be sustainable. Offers with additional exclusions can be recognised by them as more sustainable. Up to 5 exclusions could be regarded as a minimum requirement, one to three additional exclusions as a higher sustainability level and more than 3 additional exclusions as a demanding sustainability level.

The number of exclusions also depends on the detailed definitions and sales thresholds: You can exclude all weapons (1 exclusion) or separately count cluster bombs, NBC weapons, nuclear weapons,

¹⁹ Sequence number 11 in the customisable DVFA FRIPi table

²⁰ Private customers in particular typically expect a complete exclusion with 0 % tolerance in the event of an exclusion. Providers can therefore also apply 0 %. Providers should make it very clear if they deviate from 0 % and also explain this.

²¹ E.g. ecclesiastical ones like here: [Ethical and sustainable investment in the Protestant Church - EKD](#)

²² Cf. [minimum standard for target market definition \(bvi.de\)](#). There is still no published version of the concept revised by the associations in 2024.

military weapons etc. as individual exclusion categories. Exclusions should only be advertised if they are relevant to the respective investment universe. For example, weapons are typically not a relevant exclusion for a portfolio focussed on renewable energies.

Investors should define their own clear exclusion list and measure investment offers against it.

In contrast to the two options for generating investment impact discussed below, the idea of impact in the case of exclusions lies precisely in *not* investing in a company. Exclusions relate to those companies that are considered to have a negative impact on people or the environment due to their business model or behaviour. This is therefore not supported. Similarly, consideration of the PAI indicators with a clear intention to reduce can lead to the avoidance of a negative impact.

Company impact: SDG sales or output-oriented instead of process-oriented net measurement²³

In addition to negative screening (e. g. exclusions or minimum ESG criteria), investments can also be made explicitly based on positive criteria. It should be borne in mind that commercial companies primarily pursue their own profit targets in the interests of their shareholders and do not primarily strive for non-commercial positive impact.

The United Nations Sustainable Development Goals (SDGs) are a good guide for determining impact²⁴. Output-oriented metrics such as turnover and capital investment are particularly suitable for measuring compatibility with the SDGs²⁵. As with exclusions, investors must also determine what their minimum requirements are here. If 100 % is required, the number of possible investments can be very small.

As with ESG ratings, there are also differences between data providers when it comes to SDG calculations. Turnover in the healthcare sector is often allocated 100 % to SDG 3. For SDG 4 (Quality Education), on the other hand, it is possible that only sales generated in developing countries are taken into account. In addition, some providers work with net considerations: For an energy company that produces 50 % renewable and 50 % fossil energy, gross 50 % SDG compliance and net 0 % SDG compliance can be reported. A net assessment is clearly preferable to a gross assessment.

Some market participants calculate so-called entity-based quotas instead of activity-based quotas when certain minimum values are reached. Each (net) positive company is fully counted towards the quota. Example: In a portfolio with 30 companies and each company with a 30 % net SDG sales share, a 100 % entity-SDG alignment is reported. In contrast, the activity-based approach would report a total of 30 % SDG alignment.

As the EET fields of many providers for the fund products are currently not easily accessible and comparable, there are only guidelines for the comparability or equivalence of entity-based and activity-based figures. For the ratio of activity-based to entity-based companies in the FRIPI tool, we are guided by a ratio published by Morningstar of typically 20-40 % activity-based investments, which correspond on average to 60-80 % entity-based reported investments.²⁶

When using the current share of sales, it can be criticised that improvement targets are not considered. However, DVFA FRIPI users can change this individually, i. e. use target sales instead of existing sales.

²³ Sequence number 12 in the customisable DVFA FRIPI table

²⁴ Reference can also be made to the Sustainable Investment Ratio (SFDR 2(17))

²⁵ Process-oriented key figures are discussed in the following section on SDG scores

²⁶ "[Sustainable Investments - The Asset Manager's Handbook for EU Interpretation and Implementation](#)" by Morningstar from 2023, p. 11 (regarding #5 in the FRIPI tool) with data from 2022

However, it should be noted that targets are often not achieved within the planned period, as numerous research reports on the achievement of CO₂ targets show.

Instead of turnover, capital expenditure can also be used as an impact measure. The advantage of this is that large changes in the composition of turnover can usually only be achieved slowly, while investments can generally be influenced by companies in the short term and are a more forward-looking criterion than turnover.

Company impact: Process-oriented SDG scores are the equivalent of ESG ratings²⁷

Some data providers also deliver SDG scores. SDG scores are used, for example, to measure how the respective organisation performs in terms of gender equality (SDG 5), decent work (SDG 8) or CO₂ savings or biodiversity²⁸. In principle, a cluster bomb manufacturer, which would certainly not be SDG-compatible in terms of its product, could perform well in terms of SDG (and ESG) scores. Investors should also note that SDG scores and ESG scores are often based on the same or similar data/information and double counting should also be avoided in sustainability assessments. However, if the additional use of SDG scores results in a relevant gain in knowledge, these should be taken into account. In addition to the indicator mentioned here, other indicators can also be used, for example the reduction of GHG emissions.

Category 4: Investor-Impact

Four elements are considered for this category: Whether capital is additional, exercise of voting rights, shareholder dialogue and signalling. The DVFA has developed detailed guidelines for this²⁹. Reference should also be made here to the clear presentation by the European Federation of Financial Analysts' Societies (EFFAS)³⁰.

The DVFA is of the opinion that the stewardship criteria presented here are part of a positive (Investor)-Impact. By way of derogation, investors can also only use the stewardship principles described above to neutralize adverse effects of the investments. Which we also consider as net positive.

As many organisations are still a long way from potential perfect sustainability, there is still a lot of potential for shareholder impact.

Additional capital: Additionality is not absolutely necessary³¹

Some investors who want to achieve a positive impact focus on private investments such as venture and buyout capital (private equity), infrastructure equity or private debt. In a broader sense, this also includes the subscription of new issues (equity and debt capital) that are subsequently traded on stock exchanges. The main argument is that private investments can be used to invest additional capital and thus achieve a positive impact, whereas this is hardly possible with liquid investments where you only buy rights from other investors.

²⁷ Sequence number 13 in the customisable DVFA FRIPI table

²⁸ In contrast to the output-oriented indicators, we refer to such indicators as process-oriented

²⁹ [DVFA Expert Committee Impact publishes Impact Investing Guidelines – DVFA e. V. – Der Berufsverband der Investment Professionals](#)

³⁰ [Commission on ESG Note: Engagement. – EFFAS](#)

³¹ Sequence number 14 in the customisable DVFA FRIPI table

For specific (sustainable) projects, certain funds are considered more targeted than funds that are not directly tied to a project.

The sustainability of the organisation responsible for the project can also be used for the assessment. What constitutes a sustainable project, or a sustainable organisation can be determined individually – for example with DVFA FRIPI. In principle, sustainable projects of sustainable organisations can be given preference over those of non-sustainable organisations.

Other investors define potential investor impact more broadly and include liquid investments, provided that influence can be exerted via the exercise of voting rights, stakeholder dialogue and signalling.

The exclusive focus on additional capital is criticised insofar as investors usually find it difficult to prove that their own capital is the only capital that can be used for impact. Especially for renowned providers of private capital, there are often numerous potential investors, not all of whom are authorised by the provider.³²

Exercising voting rights is positive³³

In the case of equity instruments (e. g. shares, limited liability company shares), impact investors can exercise voting rights with a focus on sustainability. If shares are large and target investments are small, the potential impact is greatest. Those who do not wish to act alone can also join existing sustainability campaigns or actively engage with other investors (cooperative engagement).

Statistics show that most investors – even those with a sustainable focus – only exercise voting rights to a limited extent in terms of the number of issues and investments addressed. Moreover, many campaigns do not lead to share majorities at shareholder meetings.

In addition, issues that are considered to promote sustainability can also have potential negative effects that should be considered in advance. For example, management bonuses for the achievement of sustainability targets could lead to a greater gap to the average remuneration of employees due to an increase in overall management remuneration.

Shareholder and stakeholder dialogue is important³⁴

Engagement by shareholders or lenders (e. g. bond investors) goes beyond passive voting on decision-making options presented by the company. Engagement is intended to exert active influence regarding responsible corporate behaviour.

Engagement primarily includes discussions with managers, supervisory board members and speeches at annual general meetings. Attempts can also be made to involve other stakeholders (e. g. customers, suppliers, employees, local authorities, politicians, associations, etc.).

Ideally, there is a detailed concept for both the exercise of voting rights and engagement, according to which a structured approach is taken³⁵.

³² For a further discussion, please also see the [DVFA Guide to Impact Investing](#)

³³ Consecutive number 15 in the customisable DVFA FRIPI table

³⁴ Sequence number 16 in the customisable DVFA FRIPI table

³⁵ see [DVFA-Leifaden_Impact_2023-10](#) or [Commission on ESG Note: Engagement. – EFFAS](#)

Use signalling or naming and shaming?³⁶

In order to involve or activate other stakeholders in relation to impact goals, it is possible to create (partial) publics. This can involve highlighting particularly positive organisations or activities as well as attempting to counteract negative developments.

Overarching element: Divestments³⁷

Investor impact focusses on the positive change in investments that have already been made. The last and often reluctantly utilised category focuses on complete or partial sales (divestments).

Such divestments usually require alternative investments, for which a sometimes complex (sustainable) investment selection process is necessary. In addition, divestments often increase the risk of deviations from benchmarks, which many investors do not like.

However, divestment options are particularly important with regard to sustainable investments in order to maintain the ultimate ratio in the event of unsuccessful investments or to react to current negative company developments. If a so-called negative sustainability event (incident) becomes known, which the investor considers to be essential and only difficult or time-consuming to correct, it is important for many investors to be able to sell their investments immediately. This is especially true if the negative events pose reputational risks for the investment and, above all, for the investor. Investors in illiquid investments should plan for longer reaction times or hardly consider divestments to be practicable.

In conclusion

The FRIPI guidelines define a holistic framework according to which the DVFA Impact Committee assesses the sustainability of investments. Both regulatory parameters and parameters that go beyond these are proposed. This document is an aid to reading and interpreting the Excel document so that investors and providers can systematically and independently assess the sustainability of the investments analysed. This also takes into consideration the still evolving data and regulatory landscape in Europe.

A few, but by no means all, of the parameters proposed here can be automatically retrieved for fund investments via provider information or the EET. However, our FRIPI guidelines are not only designed for fund investments, but also represent a framework with which product providers and buyers can establish or review a holistic responsible investment policy.

We attach great importance to the fact that the Excel document is customisable to allow investors to set individual weightings or parameters to create a tailor-made FRIPI version. Individual exclusion lists can be defined, PAB exclusions can be weighted as granular criteria in category 1, or more emphasis could be placed on positive change or investor impact (stewardship).

³⁶ Sequence number 17 in the customisable DVFA FRIPI table

³⁷ Sequence number 18 in the customisable DVFA FRIPI table

DVFA Expert Committee Impact

Axel Brosey, CFA, CESGA, LAIQON AG
Prof. Dr. Timo Busch, Universität Hamburg
Dr. Gunnar Friede, CIIA, CEFA, DWS Investment GmbH
Dr. André Höck, CESGA, EB – Sustainable Investment Management GmbH
Markus Ketterer, CFA, CESGA, BayernInvest Kapitalverwaltungsgesellschaft mbH
Sonja Kimmeskamp, CESGA, HSBC Global Asset Management GmbH
Michael Franz Schmidt, CFA, DVFA e. V.
Prof. Dr. Dirk Söhnholz, Soehnholz ESG GmbH
Dr. Martina Strobel, Union Investment Privatfonds GmbH

DVFA e. V.

DVFA e. V. is the professional organisation of all investment professionals in the German financial and capital markets with more than 1,400 members. The association is committed to ensuring professional standards in the investment profession and promotes young finance professionals, in particular through the DVFA Academy. It participates in regulatory processes and political discussions through various commissions and committees. DVFA e. V. is organised in various international networks and professional associations. Through the umbrella organisation of the European Federation of Financial Analysts Societies (EFFAS), DVFA offers access to a Europe-wide network of more than 18,000 investment professionals in 14 countries. Through the Association of Certified International Investment Analysts (ACIIA), DVFA is part of a global network of more than 60,000 investment professionals. <https://dvfa.de/ueber-uns/wer-wir-sind/>

Contact

DVFA e. V. – German Association of
Investment Professionals
Mainzer Landstr. 47 a
60329 Frankfurt am Main
Phone +49 (0) 69 / 50 00 42 30 – 101
Email info@dvfa.org

Imprint

Publisher DVFA e. V.
V. i. S. d. P. Sina Karin Hähnchen, MBA

Local court Frankfurt am Main
VR 8158

© DVFA e. V. 2024

Disclaimer

DVFA assumes no liability for errors or omissions in connection with the content of this information. The document is provided for information purposes only and should not be construed as a solicitation or offer to buy or sell securities or related financial instruments. Any action taken or omitted in reliance on this information is prohibited and may be unlawful. The work is protected by copyright. Any utilisation outside the limits of copyright law without the consent of DVFA is prohibited and liable to prosecution. This applies in particular to reproductions, translations, microfilming and storage and processing in electronic systems.