ING Solutions Investment Management

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What is a sustainability risk?

Sustainability risk means an Environmental, Social or Governance (ESG) event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. Investments in companies may be particularly sensitive to ESG factors. Investments in government bonds are also sensitive to certain ESG factors. The sustainability risk of a portfolio is, amongst others, dependent upon the level of integration of ESG factors in the investment decision-making process followed by ING Solutions Investment Management (ISIM or the Asset Manager).

Which assets can be affected by sustainability risks?

Equities & equity–related securities, fixed income instruments and investments in UCITS/UCI's that invest (in)directly in equities and/or fixed income instruments

Environmental factors concern a company's influence on the environment and its ability to mitigate various risks that could harm the environment. Relevant aspects can be a company's use of energy, waste generation, level of pollution produced, utilization of resources, and treatment of animals.

A company's environmental policy and its ability to mitigate environmental risks may directly influence its financial performance. Governments around the world are increasingly introducing environmental legislation, and a company's inability to comply with these standards may result in significant penalties. Consequences of climate change may also damage areas of a company's operations and subsequently limit a company's operational capacity.

Social factors concern a company's relationships with other businesses and communities and its attitude towards diversity, human rights, and consumer protection. Social factors may affect a company's operational success by attracting new customers and retaining their loyalty and maintaining relationships with business partners and communities affected by a company's operations.

Corporate governance is concerned with the internal company affairs and its relationships with the main company's stakeholders, including its employees and the shareholders. Proper and transparent corporate governance can help to avoid conflicts of interest between a company's stakeholders and potentially huge litigation expenses. In addition, corporate governance is directly linked to a company's long-term success, as proper governance policies can help to attract and retain talented employees.

Government bonds

Environmental factors concern the influence of governments on the environment and their ability to mitigate various risks that could harm the environment. Changes in the environment can influence the economic resilience of a country. The exposure of a country to climate risks can directly influence its economy. For example, increasing weather volatility and extremes threaten to disrupt infrastructure, agriculture, tourism, and water supply, with potentially material economic implications for national economies and public accounts.

The governance factor is also relevant for countries. A country's political stability, government and regulatory effectiveness, institutional strength, levels of corruption and the rule of law can influence their economic attractiveness and is often linked to a countries long-term economic success.

Social factors can also be relevant due to the importance of human capital as a key determinant of economic growth. Social factors like the composition of the workforce, education, health, and economic wellbeing are important for economic growth and government revenues.

How does ISIM deal with sustainability risks?

Governance risk management procedure

ISIM is the Asset Manager of multiple UCITS and UCI's. ISIM has delegated the investment management of all UCITS and UCI's to delegated investment managers. ISIM has a risk management policy in place that includes the management of sustainability risks. ISIM shall perform an independent oversight of the sustainability risk management performed by the delegated investment managers.

Sustainability risk management

The investment policy of the managed UCI or UCITS describes how sustainability risks can affect the respective UCI or UCITS and how sustainability risks are integrated in the investment policy.

The delegated investment managers shall include, as part of their investment process, a holistic assessment and management of the potential risks, including sustainability risks. Additional integration measures might be applied and shall be described in the risk management process of the delegated investment managers. These measures shall comply with the Responsible Investment Guidelines, respectively the Responsible Investment Guidelines – Pension Approach. Excessive risk-taking with respect to sustainability risks shall be avoided at all times.

ISIM shall perform an independent oversight of the sustainability risk management performed by the delegated investment managers. Adequate due diligence and ongoing monitoring of the delegated investment managers form the basis of this independent oversight and should include for example an assessment of (i) the sustainability risk management process and (ii) the compliance with the relevant ING Responsible Investment Guidelines, respectively the Responsible Investment Guidelines – Pension Approach, UCI pre-contractual documents and/or ESG labels.

ISIM shall independently assess sustainability risks for each managed UCI or UCITS and related sustainability risk indicators and limits shall be defined and monitored.

Remuneration and sustainability risks

Sustainability considerations and objectives are actively integrated into ISIM's business strategy. In doing so, ISIM aims to integrate sustainability risks. ISIM also takes sustainability into account in ISIM's remuneration policy.

The ISIM Remuneration Policy is consistent with and promotes sound, effective and sustainable risk management and does not encourage risk-taking which might be inconsistent with the risk profile, rules, or instruments of incorporation of the UCI or UCITS managed. The ISIM Remuneration Policy does not encourage excessive risk-taking with respect to sustainability risks either. It reflects the Asset Manager's objectives for good corporate governance as well as sustained and long-term value creation for the funds it manages and their shareholders.

ING Solutions Investment Management

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Signatory of:

PRI Principles for Responsible Investment