

Sustainability Matters

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Exclusion Screenings: Highways or dead ends? It's your choice!

Excluding certain company stocks from an investment universe due to violation of minimum standards is a widely-used practice for socially responsible investments (SRI). It is also the oldest practice for responsible investments, and its market share within SRI strategies is still growing today.

Besides looking at today's market of exclusion screenings and their history, in this edition of the Inrate Sustainability Matters we show that systematically excluding stocks can be valuable for financial, risk and sustainability reasons. However, we also discuss that exclusion screenings are generally not able to identify all relevant sustainability issues and to fully reflect investors' values.

By means of the example Schneider Electric, we illustrate that exclusion screenings, serving as negative filter, should be complemented by a more sophisticated sustainability assessment, serving as positive filter. In this way, investors get a more thorough picture of the relevant investment aspects.

Exclusion screenings are an important element of today's SRI

Over the past several years, sustainable investment strategies, so-called socially responsible investment (SRI) products, have seen positive inflows outpacing the overall growth of assets under management in Europe and North America. Exclusion screenings (also called “negative screenings”) is one of the strategies with the most invested assets (UBS 2013).

Exclusion screenings are an approach to systematically exclude companies, sectors, or countries from the permissible investment universe if involved in certain activities (Eurosif 2012). To this end, investors define specific criteria, the common ones being weapons, alcohol and tobacco, restricted labour rights and nuclear energy. Investors do not want to be associated with such activities because they may lead to high societal risks, serious human rights infringements or irreversible ecological damages. Investors view exclusions as a tool applicable to their assets that enables them to avoid criticism of their legitimacy and social usefulness (Novethic 2012). In consequence, a company infringing with an exclusion criterion, e.g. through child labor in the supply chain, is not invested in, even if the company has adopted high ecological and social standards in its own production processes.

The following figure shows that the practice of excluding certain stocks in order to avoid investing in “black sheep” is gradually growing (Eurosif 2012, see following figure).

Exclusion investments in Europe

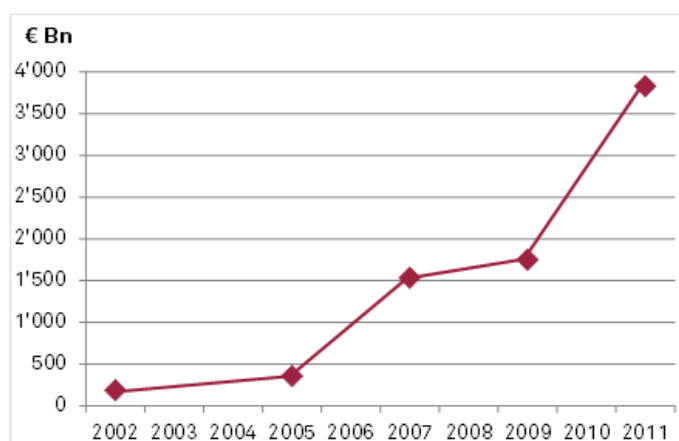


Figure 1 – source: Eurosif 2012

Examples of pension funds applying exclusion screenings are listed in the following table.

Asset owner	Considered exclusion issues	No. of excluded companies
City of Zurich Pension Fund, Switzerland	Cluster munitions, landmines, human rights, environment impact	22
ABP, Netherlands	Landmines, cluster munitions, chemical, biological weapons, Global Compact	15
PGGM, Netherlands	Controversial weapons, tobacco, human rights, ILO	124
Norwegian pension fund, Norway	Controversial weapons, tobacco, human rights, severe ecological impact, etc.	63
AP4, Sweden	Controversial weapons, ILO, UN Global Compact, OECD Principles for Corporate Governance and Multinational Corporations, int'l law violations, etc.	15

Table 1 – source: ABP (2014), AP (2014), City of Zurich Pension Fund (2013), Ministry of Finance (2014) for the Norwegian pension fund, PGGM (2014).

Two types of exclusion screenings at the forefront

In general, two types of exclusion screening concepts are distinguished. They often overlap due to similar focuses:

“Value-based” exclusions exclude companies, sectors or countries from the permissible investment universe, if they infringe with investors’ values motivated by ethics or religious beliefs or sustainability arguments. In terms of sustainability, value-based exclusion criteria reflect minimal environmental and social conditions that are essential for sustainable development. These can focus on certain products or sectors, such as weapons, pornography, alcohol, tobacco, gambling or nuclear energy. They can also focus on certain practices regarded as highly unsustainable, e.g. infringements against labor and human rights or legal compliance.

Value-based exclusions may also serve more specific socio-cultural values or religious beliefs. A small but fast-growing niche within asset management are exclusions that build the basis for faith-based investments such as Shariah-compliant funds serving Islamic investors or kosher funds for Jewish customers (Financial Times 2010, PWC 2009).

“Norm-based” exclusions are based on internationally or commonly accepted international conventions, standards or norms. Conventions often used are the UN Global Compact with its ten principles for human and labor rights of (www.unglobalcompact.org), the ILO Conventions for labor rights (www.ilo.org), the OECD guidelines for multinational enterprises, covering employment and professional relationships, corruption, bribes and other forms of extortion (www.oecd.org/corporate/mne/) as well as several Multilateral Conventions on Weapons of Mass Destruction, covering cluster munitions, anti-personnel landmines, chemical and biological weapons, etc. (e.g. www.clusterconvention.org/, www.apminebanconvention.org/, www.opcw.org/chemical-weapons-convention/).

Exclusions and norm-based screenings are an important SRI approach (bn CHF)

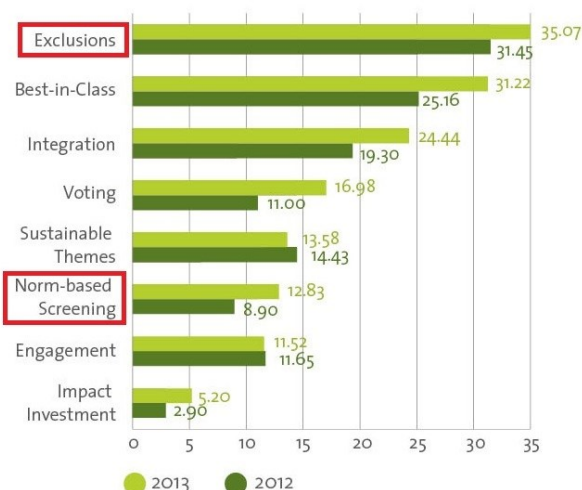


Figure 2 - source: FNG Market Report 2014

In Switzerland, 30% of SRI investments in 2013 or 48 Bn CHF were based on exclusions and norm-based screenings (see figure 2). In addition, exclusions are applied in combination with other SRI approaches, e.g. for sustainable theme or best-in-class products.

The following table displays the top ten exclusion criteria applied for investments in Switzerland. It shows that product-related criteria are most widespread, starting with weapons, followed by tobacco, nuclear energy and pornography. Human rights is the only practices-related criterion on the top ten list, positioned on rank 9.

Top ten exclusion criteria in Switzerland (bn CHF)

1.	Weapons (production and trade)	32.7
2.	Tobacco	32.4
3.	Nuclear energy	27.8
4.	Pornography	26.6
5.	Gambling	13.8
6.	Genetic engineering	11.8
7.	Alcohol	8.9
8.	Ozone-depleting substances	5.2
9.	Violations of human rights (incl. Child labour)	4.1
10.	Embryonic stem cell research	3.6

Table 2 - source: FNG 2014.

Exclusions also play a key role for the Swiss Raiffeisen Futura Funds which are based on Inrate's sustainability ratings. This approach combines a sustainability assessment (positive filter) which thoroughly determines the companies' contribution to sustainable development with an exclusion screening (negative filter) that guarantees no in-

volvement in especially harmful products and activities. In total, 19% of companies in the Futura assessment universe infringe one or several exclusion criteria (see figure 3).

Raiffeisen Futura Funds: 19% of companies excluded due to infringements of exclusion criteria

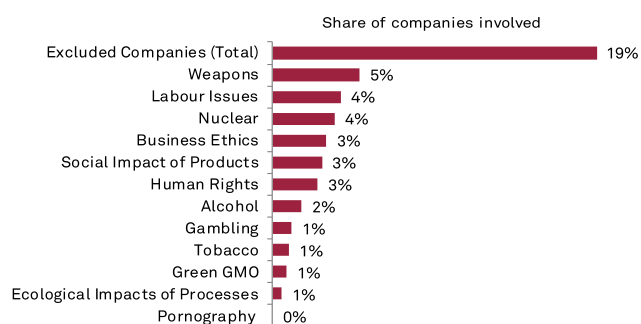


Figure 3 - source: Inrate 2014

Exclusion screenings have been developed over centuries

Applying exclusion screenings is the oldest practice for SRI. Here is an overview over their development:

Religious roots: early exclusion of sin stocks

The historic origins of exclusions are found in religious organizations: They date back to the Quakers' Religious Society of Friends founded in 1758. The society prohibited members from participating in the buying or selling of slaves and war efforts, because such practices contradicted their fundamental beliefs about peace and nonviolence (Eurosif 2012, Center for Ethical Business Cultures 2010, Schueth 2003). Also in the eighteenth century, the English cleric John Wesley preached about the "right" use of money. He argued that spending or investing it in a way that would cause harm to others was sinful, and industries like tanning and chemical production, which would harm the health of workers, should be avoided (Barchester Green 2014, Center for Ethical Business Cultures 2010).

In 1928, the first responsible investment, the "US Pioneer Fund", was launched. Strongly motivated by the prohibition era, it excluded – of course – investments in alcohol and tobacco.

What started in the US reached Europe in the 1960s, when many European churches and religious organizations began to adopt ethical exclusion screenings. These were based on their moral values (Eurosif 2012), and "sinful" companies associated with products like guns, alcohol, tobacco, etc. were avoided.

Civil rights and peace movement attack companies

Towards the end of the 1960s, the civil rights and peace movements against racial segregation in the US, the Vietnam War and the apartheid regime in South Africa strongly changed the political and societal climate. Diverse social issues such as civil

and labor rights as well as gender equality started to find expression in investment strategies (Barchester Green 2014, Eurosif 2012, Center for Ethical Business Cultures 2010).

While in the 1960s avoiding a whole business line was the dominant strategy, the focus now was increasingly on individual companies' business choices and behavior (Eurosif 2012). Concerns about the Vietnam War led investors to avoid specific corporations involved in war and war support – for example Dow Chemicals, the manufacturer of Napalm, a flammable chemical weapon. Protests against the apartheid regime in South Africa were followed by boycotts of specific companies taking profit from the regime. Meanwhile, the Sullivan Principles of 1977 promoted corporate social responsibility and aimed at applying economic pressure on South Africa. The principles eventually gained wide adoption among corporations based in the US.

Divestment from South Africa during the 1980s was credited as being one of the key forces that ended the apartheid regime (UBS 2013).

In 1971, the Pax World Funds were founded as the first ethical mutual funds.

Environmental movement promotes awareness

Since the late 1970s, public concerns grew over environmental degradation and limited natural resources. This emerged as a reaction to meaningful events such as the publication of the report «Limits to Growth» to the Club of Rome by Meadows & Meadows in 1972, and the oil crisis of 1973. Devastating environmental accidents further focused attention on environmental issues:

- Three Mile Island partial nuclear meltdown in the US, 1979
- Union Carbide explosion in Bhopal, India, 1984
- Chernobyl nuclear fallout, Ukraine, 1986
- Exxon Valdez oil spill off the coast of Alaska, 1989

While environmental concerns had only limited impact on investment strategies during the 1970s and 80s, they were an important step towards the adoption of corporate environmental management systems and environmental reporting.

UN postulates «sustainable development»

A major milestone in the history of SRI was the concept of sustainability. It was brought to the forefront in 1987 when the United Nations' Brundtland Commission published its groundbreaking report "Our Common Future". It brought up the widely accepted definition of sustainability: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

Another milestone was marked in 1992, with the United Nations Conference on Environment and Development (WCED), known as the Rio Earth Summit. An important achievement was the agreement on the Climate Change Convention which in turn led to the Kyoto Protocol.

For investors, however, the planet's carrying capacity and the world's social frictions were not yet of high priority (UBS 2013). But as sustainability came to the forefront of society, it slowly emerged as an own market for sustainable investments. In addition to exclusion screenings, broader sustainability assessment approaches gained importance.

One of the first SRI indexes was the Domini 400 Social Index (today the MSCI KLD 400 Social Index), launched in 1990 (MSCI 2014). It excludes companies involved in alcohol, gambling, tobacco, military, weapons, civilian firearms, nuclear power, adult entertainment, and genetically modified organisms (GMO). In addition, it comprises companies with high Environmental, Social and Governance (ESG) ratings (MSCI 2014).

In 2006, the United Nations launched the Principles for Responsible Investment (PRI). Their goal is to increase awareness for the relevance of sustainability issues for investors, and to support financial companies and investors while incorporating sustainability criteria into their investment decisions and ownership practices. The UNPRI have since been a valuable driver of the market success of sustainable investment strategies.

Evaluation of current exclusion screening concepts

Exclusion screenings serve as ethical minimum standards respectively bottom lines for investments. What is the role of this approach within the world of socially responsible investments (SRI)? Are investors well advised to rely on exclusion screenings as their main SRI strategy? In the following paragraphs, these questions are discussed in the light of the two main purposes of SRI (de Colle/York 2009):

- (1) To measure companies' **sustainability impacts** and encourage them to improve their sustainability performance;
- (2) To allow **investors'** to reflect their **values**, e.g. by avoiding investments that do not correspond with their belief systems.

(1) Exclusions improve sustainability impacts

Sustainability ratings should measure the various impacts of companies on society and the environment. Impacts are generated by the companies' products and services and along entire value chains.

There is a strong link between exclusion screenings and sustainability impacts: Exclusions generally focus on issues with severe and often irreversible ad-

verse sustainability impacts (e.g. if fundamental human rights are infringed) or associated with major or incalculable risks (see table 3). Thus, it can make good sense to apply minimum standards for investments, both for investment risk and sustainability reasons.

Nuclear energy for example is associated with major societal risks and costs. It starts with the environmental costs for uranium mining, and the states' investment guarantees for the construction of nuclear power plants. Society also carries high risks and costs in case of major accidents during energy production, as well as for deconstructing those plants and for storing nuclear waste (e.g. Meyer 2012). In recent years, societies have been less and less willing to carry these costs, and regulations have tightened to further the causer-pays-principle. Consequently, nuclear power production has become less and less profitable. This is why companies such as RWE, E.ON and EnBW are currently trying to shift the ownership of their nuclear power plants in Germany to the state in order to avoid further losses (RP Online 2014).

Another example is legal compliance and the current tax dispute case of Credit Suisse in the US. Tax evasion generally undermines a state's ability to fulfil its tasks such as providing public infrastructure and maintaining public safety. This is why regulation, also at international level, has become substantially stricter in the past years. Credit Suisse has just recently confessed guilty of assisting US clients evading taxes. It is imposed a fine in the US of 2.8 bn USD, that is clearly affecting the bank's capital substance (Gallarotti 2014).

Overall, it becomes evident that no matter why investors apply exclusion screenings – be it for financial, reputational or sustainability reasons – they will improve their investments' sustainability impacts and end up **investing more sustainably**.

In terms of sustainability, however, exclusion screenings are not able to capture all relevant issues in an adequate way. Exclusion screenings tend to focus on criteria that are relatively easy to assess, such as alcohol, tobacco or gambling industries (see table 2). Even though these issues are undoubtedly relevant, they seem to be rather overrated. At the same time, common exclusion screenings do not (or not sufficiently) cover several highly relevant sustainability issues. Among those are highly relevant environmental challenges our society faces today: climate change and the sustainable use of resources such as freshwater, to mention a few.

Thus, exclusion screenings, even though they play an essential role in investing sustainably, have a limited scope. This is why they are ideally accompanied by rather holistic sustainability assessments that are able to assess complex sustainability issues in more detail.

(2) Exclusions only partly reflect investors' values

The second purpose of SRI is to reflect investors' values. Different investors hold a variety of investment values, as they aim at fulfilling different missions and at serving different stakeholders. A publicly traded private company for example will probably not have the same investment values as a family-owned company, and a private company as an NGO or charity. Accordingly, asset owners mentioned a variety of reasons in 2013 when asked why using ESG criteria for their investments: from sustainable development to long-term risk management, protection of reputation and financial performance (see figure 4) (Novethic 2013).

To conclude: Exclusion screenings serve as minimum standards, and as such are generally effective in evading important sustainability impacts and investment risks. They can usually contribute to each

Exclusion issues and their sustainability impacts and investment risks

Exclusion issues	Companies examples	Investment risks	Sustainability impacts
Nuclear power	Nuclear power (FMB), RWE, BWK	Hidden costs, regulation change	Major risks, environmental and societal costs
Green genetic engineering	Syngenta, Monsanto	Reputation, regulation change	Major risks, environmental and societal costs
Weapons	ThyssenKrupp, Volkswagen	Reputation, regulation change	Reputation, regulation change
Alcohol, tobacco	Dufry, Lawson	Reputation, regulation change	External health care and societal costs of addiction
Human and labor rights	Galaxy Entertainment, International Game Technology	Reputation	Societal costs of addiction
Legal compliance	Credit Suisse, Deutsche Bank	Liabilities, reputation	Societal costs

Table 3 – source: Inrate 2014

of the investors' different aims: financial, reputational, long-term risk and sustainability aims.

However, exclusion screenings are **limited** when it comes to fully reflect investor values: As they focus on highest risks and on issues that are relatively easy to assess, they often overlook other relevant investment risks such as the carbon-intensity of an investment, and sustainability-related **investment opportunities**.

Reason to use ESG criteria with investments



Figure 4 - source: Novethic 2013

Financially driven investors, for example, who merely apply exclusion criteria such as nuclear energy in order to avoid hidden costs, will probably miss the growth chances of energy-efficient technologies and renewable energies. Reputation-driven investors who apply exclusion criteria such as human rights have a good chance of not getting involved in related controversies. However, they will miss the chance of benefitting from the good reputation of companies with best practices e.g. concerning equal rights of employees. Sustainability-driven investors might not be found financing weapons, but for example climate-intensive companies.

To conclude: In order to fully reflect investors' values it is again reasonable to combine **exclusion screenings** with more encompassing sustainability assessments.

Exclusions have strengths and weaknesses

Overall, exclusion screenings prove very valuable in the landscape of SRI. They can also be regarded as rather "quick ways" of showing some investor commitment. However, they are also associated with weaknesses, as listed in the following table.

Given these pros and cons, the idea and purpose of ethical minimum standards is valuable and makes perfectly sense, if applied in the right way. If exclusion screenings are used as **first steps** into the right direction, they can become highways - highways to consistently integrating values into investment strategies and decisions. However, getting stuck with half-baked solutions – i.e. with unfounded and all too simplistic dichotomies of "good" and "bad" –

Strengths and weaknesses of exclusion screenings

+	-
Minimum standards are essential components in ESG ratings	Exclusions often apply limited criteria that are not scientifically based => limited and arbitrary criteria sets used
Avoid highest risks	Criteria are often vague, inconsistently applied => investors looking at the same exclusion issues end up with different company blacklists
Easy to understand and communicate, relatively cheap to implement	Mostly insufficient to reflect investors' values
Tangible, straight-forward concept of avoiding "black sheep"	Insufficient to assess sustainability impact of companies
First step for holistic sustainability assessments	Risk of getting stuck with half-baked solutions

Table 4 - source: Inrate 2014, based on Novethic 2012, Blanc et al. 2013, YourSRI 2013. Schwartz 2003, de Colle/York 2009, Hawken 2004

proves a dangerous dead end. In the words of the philosopher Hilary Putnam: "The worst thing about (...) dichotomy is that in practice it functions as a discussion stopper, and not just as a discussion stopper, but as a thought stopper" (Putnam, 2004).

Important role of exclusions in sustainability ratings

As argued above, merely picking few relevant sustainability issues and applying them as exclusion criteria is not enough to fully assess relevant sustainability impacts. Neither are most ESG ratings concepts: "Nearly all ratings at the moment are mainly based on policies, methods and reporting. Better assessment of the performance and sustainable impacts of corporations is of course difficult, but it would be very helpful for the development of the whole industry." (The Carlo Foundation 2013)

The **Inrate sustainability rating** approach shows the role that exclusion screenings can play as valuable complements of sustainability assessments. The Inrate rating approach is **scientifically founded** both on ethical concepts (such as universal human rights and responsibility) and economic concepts of market failures. One of the considered market failures are external costs and benefits (see e.g. UNEP FI/UNPRI 2011). These are costs or benefits that are, per definition, not entirely internalized in market prices. If companies react on the basis of such distorted market prices, they will probably not adequately consider environmental or societal impacts.

Both ethical and economic concepts are the basis for a coherent and rather encompassing sustainability rating approach, based on two methodological pillars:

1. The **Inrate Sustainability Assessment** functions as positive filter. It identifies companies that offer products and services that fulfil society's needs for mobility, nutrition, energy etc. with the lowest possible sustainability impacts. Here, a large set of indicators is applied, focusing on the companies' products and services, on practices, management systems (policies, programs, responsibilities assigned, reports, etc.), thus capturing the resulting sustainability impacts along entire value chains. The rating results are expressed on a scale from A+ (best possible grade) to D- (worst grade).
2. The second methodological pillar functions as negative filter by identifying companies that infringe **ethical minimum standards**. It comprises a wide set of value-based exclusion criteria that particularly focus on serious, possibly irreversible sustainability impacts and extreme, unforeseeable risks.

The **exclusion screening** performed by Inrate takes a more focused view and concentrates on the above-listed minimum standards. The company currently has some minor involvements with products for the defense and the nuclear energy sector. But these remain below the general exclusion thresholds. However, in the past the company provided crucial parts for nuclear weapon systems and could potentially do so again in the future. Even when generating a low share of total turnover, such services are considered a significant involvement and would trigger an exclusion.

The example of Schneider Electric shows that both the Inrate Sustainability Assessment and the exclusion screening display different important aspects for investing sustainably. Investors can realize their own specific investment values by, first, choosing an accustomed set of exclusion criteria for their investments. Second, they can choose rating grade thresholds for the sustainability impact of their investments, e.g. by only investing in companies with ratings of B- or better. Investors can also base their engagement and voting practices on important issues that identifies in the sustainability rating.

Example Schneider Electric

The example of **Schneider Electric SA** illustrates the relevance of the two rating pillars that Inrate applies. The **Inrate Sustainability Assessment** of Schneider Electric (see figure 5 and table 5) shows that its overall sustainability performance is above industry peers. The overall grade B indicates that the company is on the path to sustainability. The assessment gives a rather complex picture of the different sustainability impacts. The below-average societal grade C is compensated by A and B grades for the environmental, labor and governance impacts.

Issue	+	-
Environment	Products increase energy efficiency in energy intensive industries. Energy optimization audits offered for customers.	Electrical distribution and control equipment sold for nuclear power plants (<1% of turnover generated therewith).
Labor	Employee safety of high priority. OHSAS 18001-certified managements system implemented at most sites.	No SA 8000 certification for employees.
Society	No reporting on charitable donations.	Involved in controversies over anti-competitive practices. Production of non-lethal electrical components and automation for vessels, submarines and aircrafts for the defense industry (<1% of turnover).
Governance	Remuneration of top executives linked to sustainability performance. External verification of CSR reporting for labor and environmental issues.	<50% of non-executive directors are independent.

Schneider Electric is a France-based company, specialized in electricity distribution, automation management and installation components for energy management. The company generated 23.6 bn EUR total revenues in 2013 with more than 163'000 employees.

Inrate Sustainability Assessment of Schneider Electric

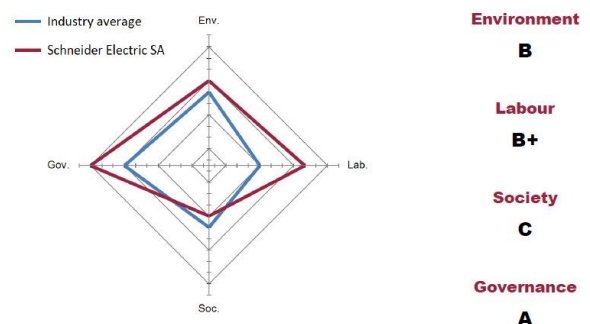


Figure 5 - source: Inrate 2013

Table 5 - source: Inrate 2013

Why investors need a responsible investment position

As stated above, exclusion screenings are valuable, but most probably insufficient (if used alone) to realize investors' values and to analyze sustainability impacts. But should investors care about values and sustainability at all? Do they really need an official position concerning responsible investments?

In the following sections, we explain why there is no getting around defining responsible investment positions and implementing them in a consistent way. Having "no position", or something like a neutral or inconsistent position, can have serious consequences. In today's world with critical stakeholders on the watch, investors have to anticipate to be held accountable for the sustainability impacts of their investments, regardless if they claim to have a position or not.

The trouble starts, for example, if a major catastrophe happens, with serious consequences that threaten ecosystems and people's livelihood. Famous examples: BP in 2010 with the Deepwater Horizon oil spill in the Gulf of Mexico, and the nuclear catastrophe in Fukushima a year later. Many so-called "ethical investors" were found to be invested in these activities. They experienced financial losses and had their reputation threatened.

If this happens, the following reactions are generally possible for an investor with no (or no clear) position:

1. Keep doing nothing. This saves the costs of taking a special effort, but it proves ineffective to limit damages.
2. Defend the problematic investment through communication with stakeholders. Here, some effort is taken in trying to limit damages. But mere "talking" will probably not be accepted by stakeholders and will mostly be ineffective in the end.
3. Enter into an active engagement process in order to try to change the company's problematic activities.
4. Disinvest from the problematic investment.

Reactions 1. and 2. are most probably ineffective – reputational and/or financial damages are likely to hit with full vehemence. Most investors might not be able to afford that in the long run. In contrast, when choosing reactions 3. or 4., investors demonstrate some "goodwill" and have a chance to limit damages. However, all of these reactive behaviors are not a priori avoiding risks and resulting damages, but aim to limit them once they have occurred. This still is potentially costly, and it might take a long time to repair damages, especially in the case of reputational damages.

Another disadvantage of such reactive behavior is the "time trap". Being involved in an imminent controversy, an investor usually does not have enough time to work out an optimal response. And jumping the guns under time pressure poses a risk in itself. Reactive behavior is externally driven by the discovery of problematic investments through critical stakeholders. If investors have neither a strategy in place nor appropriate investment tools implemented to react prudently and to purposefully compose a sound portfolio – in a critical situation there is no time to make up for that. The financial and reputational risks of ending up with a rather unfavorable investment selection where relevant aspects of investments are not sufficiently known can be quite high.

In contrast to that reactive behavior, working out and implementing an appropriate position beforehand is a pro-active way of avoiding damages. It is also a prudent way of fiduciary investing: Investors can take their time to work out a responsible investment policy, identify coherent investment strategies and implement the necessary criteria.

Implementing responsible investment policies has therefore become a trend. This is the result of a survey carried out by Novethic (2013) among European asset owners reveals: In 2013, two thirds claimed to have adopted a responsible investment policy or a charter that explains how ESG criteria are taken into account in their asset management. Two years before, they were only 2 out of 5.

More and more asset owners set up responsible investment policies

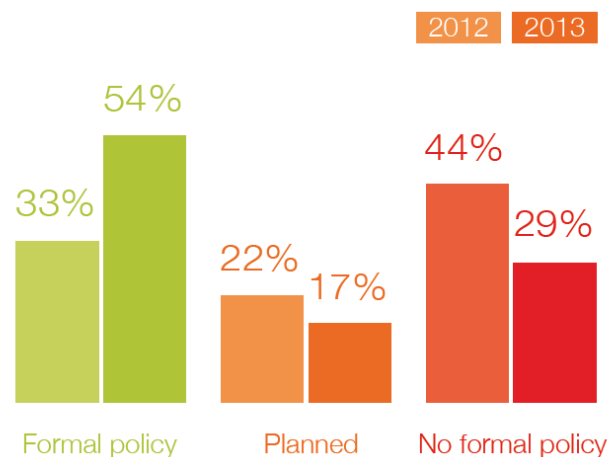


Figure 6 – source: Novethic 2013

However, the fact that 19% of respondents who planned to implement a policy in 2012 have not succeeded a year later suggests that the process of doing so takes time and is not an easy task. It can also be a sign that the implementation process was delayed, maybe because other things were conceived to be more important. The share of asset owners with no formal policy rose from 20% in 2012 to 25% in 2013, suggesting that some former plans were given up a year later. (Novethic 2013).

There is no such thing as an “optimal” responsible investment position

If investors choose to implement a responsible investment policy or to challenge the one in place: Is there one optimal position suitable for each investor? And if not: What is the right way to select an appropriate position and to implement it?

Another result of the Novethic study (2013, see above) is that responsible investment positions and concepts in the landscape of SRI products are quite heterogeneous. This is due to different norms, ideologies and missions of organizations and stakeholders, due to cultural and ideological differences between regions, etc. (Sandberg et al. 2009). Thus, there is no such thing as a one and only optimal position fitting every investor in every context.

To find the responsible investment policy that is appropriate for a specific investor, there are generally three steps to take:

1. Define investment values

First of all, investors have to define their investment values that need to be in line with their organizations' missions. The values also have to be aligned with the claims of relevant stakeholders and of society in general. Here, investors need to ask themselves whose claims they aim to vouch for and whose criticism they are willing and able to deal with.

2. Deduce a responsible investment policy

As a second step, a responsible investment policy is derived from these values. Here, the sustainability impacts considered in investments are defined, together with the relevance of sustainability issues vs. other investment aims in cases of trade-offs. Closely related with this are the questions of how many and which sustainability-related risks investors aim to avoid.

3. Select responsible investment products and criteria

The third step will implement the responsible investment policy in the product range and in investment decisions. It defines which financial products the policy is applied to and what SRI products will be offered. Afterwards, sustainability-related investment criteria sets are selected accordingly, possibly combining appropriate exclusion screenings as negative filters with sustainability assessments as positive filters.

Conclusions

We do not claim that all investors should or can primarily be sustainability-driven and set sustainability as dominant investment aims. But we postulate that investors should know where they want to go and why – that they set up their own specific and

appropriate responsible investment policies and implement them in a consistent manner. Reactive and neglecting behavior can end up being quite costly, as we have shown above, and there are investment chances missed.

Exclusion screenings are means to implement ethical minimum standards (negative filters) in investments. As such, they play an essential role in responsible investments. However, investors have to overcome the possible temptation of using them as half-baked solutions. Applying exclusion screenings successfully requires that they are used in the right way:

1. as part of a coherent and formal responsible investment position;
2. with exclusion criteria that are scientifically founded, purposefully selected and consistently applied;
3. possibly in combination with a more holistic sustainability assessment (as positive filter), depending on the formal responsible investment policy.



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