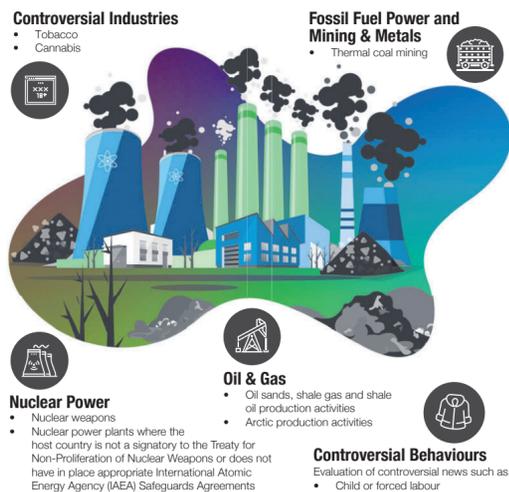


Standard Chartered Bank Sustainable Investing Series, in partnership with UOB Asset Management

Curating quality ESG-integrated funds

Standard Chartered Bank's ESG Select applies careful due diligence to pick sustainable funds with potential to deliver long-term outperformance.



Above are examples of activities that Standard Chartered's ESG Select suite of products applies a "hard exclusion" or revenue threshold approach on.

Sustainable investing has existed as an investment strategy for more than a decade, but only rose to prominence fairly recently. This can largely be attributed to the greater urgency of climate change and awareness of business risks that corporates could face if they do not address Environmental, Social and Governance (ESG) concerns.

This awareness appears to have grown further since the Covid-19 crisis. Morningstar data shows a net inflow of US\$45.6 billion into sustainable funds in the first quarter of 2020, compared to a net outflow of US\$384.7 billion from the broad funds universe. The

outperformance, albeit over a short period, was also notable: 51 of 57 of Morningstar's sustainable indices fared better than their broad market counterparts.

The integration of ESG into the investment process is based on the in-depth research into a target company's ESG profile, and the use of those insights to arrive at an investment decision. Companies that rank highly in ESG scoring are expected to have stronger business models and can better manage ESG-related risks. Funds that invest in such companies will likely be able to drive positive impact and benefit from improved risk-adjusted returns.

Who can invest, and how?

At Standard Chartered Bank, access to such sustainable investing solutions is available to all our clients from as little as S\$1,000, or through a regular savings plan for those with a dollar cost averaging strategy. Clients can also invest through our Online Unit Trusts platform without leaving home. What's more, our sustainable investing solutions are based on our stringent due diligence standards for investment funds, including our

proprietary ESG Select screening process.

What is ESG Select?

ESG Select is an in-house criteria to evaluate sustainable products. It examines the breadth and depth to which ESG is meaningfully embedded into the investment process. This, together with our rigorous funds selection process, allows us to curate ESG solutions that have the potential to deliver both on competitive financial returns and sustainability outcomes.

What does the process involve?

SCB position statements Standard Chartered adheres to position statements relating to sustainability, which are applied to the ESG Select suite of products. For example, solutions are evaluated on whether there are investments in fossil fuel or nuclear power, oil and gas and other controversial industries. These are compared against a revenue threshold aligned with industry best practice.

Asset manager review The review takes into account both the operational and investment activities of the asset manager. Standard Chartered believes asset managers should "walk the talk". They should be reputable in the sustainable investment space, and also have good sustainability practices at the corporate level.

ESG integration Standard Chartered's Fund Select and Sustainable Investing teams do "deep dive" due diligence to ascertain to what extent ESG considerations are woven into the investment process. The ESG integration should span the whole investment process, from idea generation to portfolio construction and risk management. The investment process needs to be repeatable and robust enough to generate long term outperformance. It should also be institutionalised, so that it impacts the portfolio manager's analysis and decision making.

ESG expertise The investment team's expertise and its ESG resources are critical for a fund to deliver its superior performance and ESG objectives. These include having a qualified and experienced team in ESG investing, access to industry databases, and a solid ESG research infrastructure.

Performance Standard Chartered's "3P" analysis of the strategy; Process, People and Performance should lend confidence that funds curated for ESG Select are likely able to outperform their benchmarks consistently over time. A thematic fund or impact strategy should also take a thoughtful approach to the measurement of impact. The portfolio manager's compensation should be linked to the fund's investment performance for alignment of interests.

Weeding out exaggerated claims Sustainable funds are increasingly seen as desirable, but there is concern that some asset managers may re-brand funds as sustainable or ESG to jump on the 'ESG bandwagon'. For such funds, ESG is given only cursory consideration. Eugenia Koh, Head, Sustainable Investing and Engagement Strategy, Standard Chartered Private Bank and Wealth Management, says, "The practice of 'greenwashing', which puts a spin over substance and includes misleading claims, is growing. Left unchecked, it could lead to investor disillusionment should so-called ESG funds not only underperform, but also fail to demonstrate any impact." The process behind ESG Select will help separate false claims from genuine ESG commitments.

As the number of sustainable funds increase, the discipline of selecting a truly sustainable and ESG-integrated fund requires unique expertise and resources. This discipline will prove rewarding to investors, helping them to invest in funds that could outperform, and encouraging companies to move towards a sustainable model over the long term.



Victor Teo
Head, Fund Select,
Group Wealth
Management



"There is an increasing global emphasis on sustainable investing, and by working with the industry's leading asset managers, we are able to give our clients access to relevant, high quality and diversified ESG solutions."

Mark Chia
Head, Managed Investments & Equities, Singapore Wealth Management

NOTE: This article is brought to you by Standard Chartered Bank (Singapore) Limited (SCBSL). All information provided is for informational purposes only.

UOBAM leads the way in sustainable investing with Singapore's first SDG-linked bond fund

UOB Asset Management (UOBAM) has partnered Europe-based Robeco, a forerunner in sustainable investing, to launch the United Sustainable Credit Income Fund (USCIF).

USCIF is the first in Singapore for retail investors. It focuses on bonds from companies that are making progress towards the UN Sustainable Development Goals (SDGs) and invests in the RobecoSAM SDG Credit Income (Underlying Fund) managed by Robeco.

Mr Victor Wong, UOBAM's Senior Director and Head of Asia ex-Japan ESG says, "At UOBAM, we believe that sustainable investing is the key to addressing social and environmental challenges. Essentially, it is about meeting the needs of the present generation without compromising those of generations to come."

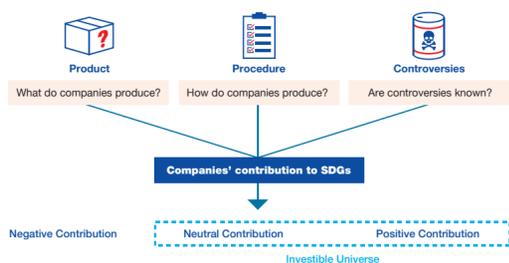
Creating a sustainability framework to evaluate investments

The Underlying Fund adopts the UN's 17 SDGs as a framework to evaluate companies for their sustainable contributions.

Companies are evaluated based on what they produce,

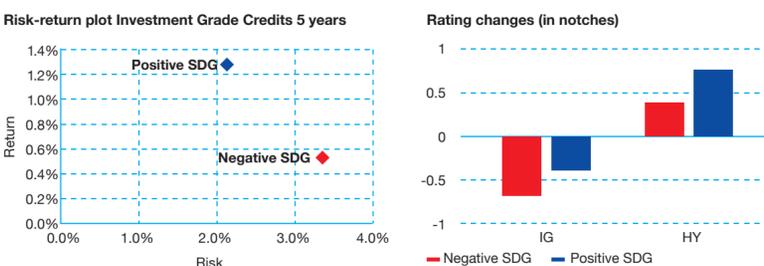
how they produce, and if they are involved in any controversies. How a company operates takes into account factors such as governance and measures to achieve gender equality. Controversial practices such as corruption or environmental disasters are also considered to

Figure 1: A 3-step SDG framework to screen companies



Source: Robeco

Figure 2: Positive SDG contribution leads to less rating pressure



Sources: Barclays, Robeco calculations based on global Investment Grade (IG) and High Yield (HY) universe covered by RobecoSAM. Data as of end March 2019, 5-year history.

examine its accountability and attempts to tackle the problems.

The results are quantified in an SDG score, which represents the company's contribution to the SDGs. Companies with a negative overall score are excluded from the investible universe.

Do sustainable companies make better investments?

Investing in SDG-positive companies enables investors to make a positive impact and also contribute to better investment performance.

Environmental, social and governance (ESG) integration reduces the downside risk for credits. As Figure 2 shows,

companies in sectors which contribute positively to the UN SDGs have delivered higher credit returns and lower volatility than those that have negative impact on the SDGs.

Performance is also enhanced as reflected in the credit ratings. Companies in positive SDG sectors had less downgrades and more upgrades than companies in negative SDG sectors.

Sustainability analysis plays a key role in helping investors avoid defaults as research on issues such as governance may throw up flaws in risk management, potential litigation and environmental claims. Digging deeper into ESG

information reveals downside risks more clearly, enabling investors to avoid credit incidents.

UOBAM believes that through USCIF, investors can achieve investment performance and enjoy stable income while contributing positively towards a better world.

Standard Chartered Bank is the exclusive distributor of UOBAM's United Sustainable Credit Income Fund. Scan the QR code or visit UOBAM.com.sg/income-with-impact-now



Victor Wong
Senior Director and
Head of Asia
ex-Japan ESG



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