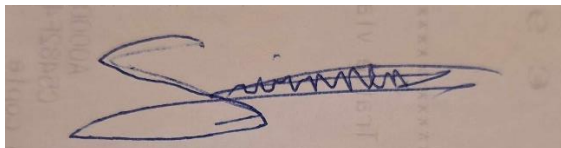


## Declaration

During the preparation of this master's thesis, the author utilized goodtape.io for the following purpose:

1. Transcription of the performed interviews. This in order to more efficiently and precisely transcribe the interviews.
2. After using goodtape.io, the author diligently reviewed and edited the content produced by the tool. I take full responsibility for the final content presented in this thesis.

By signing this declaration, I affirm that the content of this master's thesis reflects my original work, augmented by the responsible use of AI.

A handwritten signature in blue ink on a light brown background. The signature is stylized and appears to be a name, possibly "S. M. M.", with a large, sweeping initial letter 'S'.

# APPENDIX 3

Answers Sovereign Wealth Funds

ÖBAG

[00:00 - 00:09] So to be clear, maybe first introduction on the overall topic. So what I'm really assessing here is, so it's a master thesis for the Louvain School of Management

[00:10 - 00:21] and I'm analyzing actually the link between the ESG stances of the sovereign wealth funds and also the ESG impact of their portfolio companies. So trying to see the link there and that is why

[00:21 - 00:32] on the one hand I'm interviewing the managers at the sovereign wealth funds to get their insights on how they see ESG being implemented and on the other hand I will get more quantitative data

[00:33 - 00:45] through the companies linked to the sovereign wealth funds and see how they actually perform on an ESG level. I hope that was a bit clear.

Yeah. Okay. Okay perfect. And of course,

[00:45 - 00:55] so I said I will share with you afterwards the transcripts so that you can first check that before using anything. Okay? Amazing. Okay perfect. Thank you very much.

[00:56 - 01:07] So first of all, the first question actually relates to the screening itself that you use at the fund. So does the fund use any [negative screening methods](#) excluding investments based

[01:07 - 01:19] on ESG criteria already? Yeah, so ÖBAG is a little bit special in this regard and because we haven't acquired a new business in a long time, the current screening functions

[01:19 - 01:26] and in the portfolio strategy for new businesses you're focusing of course on companies that

[01:26 - 01:33] get added value for equity infrastructure in Austria and job creation in Austria. So that's

[01:33 - 01:40] our mandate as provided by the law of the Austrian sovereign wealth fund. But there hasn't been

[01:40 - 01:50] an acquisition target in recent years. So that's why for the new business strategy

[01:51 - 02:01] there's like it's not as important as for other companies that it's not an exclusive business or for companies that are not investing. Okay. Okay, I see. And then relating to this on

[02:01 - 02:10] the other hand is there then the potential for a [positive screening method](#)? So if there are best practices across companies in your portfolio that this would be like fueling you to actually

[02:11 - 02:17] like invest in them or is there nothing on that side? Yeah, maybe let me give you an example.

[02:17 - 02:25] One of the opinion companies is a lottery and casino operator which is like a niche of gambling which on some ESG

[02:27 - 02:34] is executed as an ESG investment. However, we from our shareholder position, we focus

[02:34 - 02:45] on responsible gaming practices. So that's one of our, let's say, it's an area that we as a shareholder pay a lot of value because we feel as a responsible gaming operator,

[02:45 - 02:57] you actually also do good for, you keep your industry practice in the best interest of society as well, because you don't want to have harmful gaming. That would separate also

[02:57 - 03:07] like companies that work with other shareholders in the two countries, I would say. Okay. Yeah, I see. Okay, perfect. That was very clear. Also, thank you for the example

[03:07 - 03:15] then. And then if you have any ESG factors, would it depend on the industry of the target

[03:15 - 03:23] firm? Like, do you have some [industry specific ways of assessing](#) on that level? Or is it just more broad, the responsible aspect that you were just touching?

[03:23 - 03:34] Very good point. So we analyze and research every year, the ESG performance of our portfolio

[03:34 - 03:45] companies compared to the industry benchmark. So we have seven major companies in our portfolio. One in oil and gas, one in utilities. There's a lot of casino companies that I mentioned,

[03:45 - 03:53] real estate, telco. And what we are focusing on is how does our portfolio company perform completely?

[03:53 - 03:59] to the international peers. So, on the example for Austrian Telekom or let's say Austrian Post,

[03:59 - 04:07] we would look how is the German Post performing on issues such as the CO2 footprint, gender

[04:07 - 04:19] diversity, several governance metrics. We have around **30 ESG metrics** we're looking for each and every portfolio company and comparing them to international competitors such as from the

[04:19 - 04:26] Netherlands, Belgium, Germany, or even like the US peers from time to time. And these indicators,

[04:26 - 04:32] I would say roughly **half of them are industry agnostic**. For example, CO2 intensity,

[04:32 - 04:42] where we measure like the CO2 emissions as divided by revenues. And the other half would

[04:42 - 04:50] be very much industry focused. So, for example, in the package delivery industry, you would focus on the package delivery industry. So, for example, in the package delivery industry, you would focus on the package delivery industry. So, for example, in the package delivery industry, you would focus on the CO2 emissions

[04:51 - 04:57] emitted per package delivered to a customer. So, that's a measure that we can look at per

[04:57 - 05:10] kilometer of the delivery miles. So, this gives you an idea of how we are trying to combine this industry agnostic view that we can unite on our portfolio, but at the same time, try to analyze

[05:10 - 05:18] the most material topics for each industry. Maybe like even a better example, like for Austrian Post, for example, it's really important for us to analyze what's the percentage of the

[05:18 - 05:30] electric vehicle fleet, because transportation is the main source of social emissions. And by electrifying the vehicle fleet, we can actually be way better than the competitors. And I mean,

[05:30 - 05:42] for an oil and gas business, if their cars are electric or hybrid, it's not as big as the leverage as for our transportation logistics companies. We try to find a balance between having a portfolio

[05:42 - 05:55] view, but then also getting the industry specific, right? Okay. Okay, perfect. That's very, very good. Very clear. You were talking about 30 metrics. Is this an [internally developed methodology](#) that you

[05:55 - 06:01] use? Or is it looking at external? Did you dare use some external sources to get these? Or how should

[06:01 - 06:09] I see them? Yeah, three years ago, **we developed a system together with external experts**. I was saying

[06:09 - 06:18] 2021 when I joined the firm, it was actually my first project. And we started by looking at ESG rating providers and analyzing our performance.

[06:18 - 06:24] And based on what ESG rating providers seen up for you. So I mean, the big ones, MSCI,

[06:24 - 06:37] Sustainalytics, Bloomberg, Refinitiv. But then we realized that there's a huge divergence in the ratings and the rating performance, which means there's no consistency at all. So a company could

[06:37 - 06:48] do really well at one rating provider and not like terrible at the other. So we wanted to develop our own system. And this we started in 2021. And now every year,

[06:48 - 06:57] we try to improve our ESG performance system, add APIs, exclude some, try to insert new ones,

[06:57 - 07:04] and move on from there. So to give you an example, one API that's now very, where there's a lot of

[07:04 - 07:15] dynamics I feel is now in the gender diversity metric, where you move from the intersection gender pay gap, equal pay. So topics that are very interesting, and where there's research that's

[07:15 - 07:26] coming up and we feel that there will be more data. Okay, perfect. And just I understood it correctly that this is done on a yearly basis,

[07:26 - 07:34] the assessment itself. And the from the 30 metrics, approximately, how many would be purely on [environmental aspects](#), for example, if I may,

[07:35 - 07:47] I would probably say like, maybe 12, environmental talk social and then six governance metrics. Okay, okay, perfect. Government, focused on

[07:48 - 07:58] on issues such as articles, what's the performance aligned to the yield taxonomy in terms of capex and sales in environment

[07:58 - 08:08] appropriate emissions, then also waste and circularity metrics, I hope I'm not forgetting water use, resource use here.

[08:09 - 08:20] And for biodiversity is actually a very interesting topic, I'm curious to hear your thoughts on biodiversity then. This is definitely one issue where we want to analyze it more rigorously, but we're lacking

[08:20 - 08:32] the data to find international benchmarks on biodiversity performance of companies. And for social, we look at employee satisfaction, obviously, training hours, fluctuation rates,

[08:33 - 08:45] and diversity of workforce, especially in management positions and board positions. Yeah, I think that's a good overview. Okay, perfect. Yeah, that was very helpful. Thank you. And then is there any other questions?

[08:45 - 08:55] Is also the impact of the [ESG criteria themselves on the financial sustainability](#) considered? So how it then financial impacts it? Or how do you make that link?

[08:58 - 09:11] That's actually a project that I would like to do in the future. So let's see if that works out. So currently, we are looking at our portfolio, our portfolio performance on the one hand

[09:11 - 09:23] through some financial metrics that are very much aligned to what I'm doing. And then the other investors use and look, of course, in the shareholder returns, and the dividend performance of our portfolio, that's an important metric.

[09:23 - 09:32] But then in our portfolio strategy, we are also tracking performance on ESG metrics. Okay, okay, perfect. Very clear. Thank you.

[09:33 - 09:45] And then my next question is internally, are there any trainings provided by the by the OBAC to focusing on ESG in light of the investment decisions, like so for the internal, like for the people who are investing?

[09:45 - 09:58] Are you working there? Yeah, maybe like from new investment purposes, as I said, this less activity that we've got compared to other cyber and wealth funds, because we've got as big majority positions

[09:58 - 10:08] in few companies and not a lot of activity. But yeah, they are trainings provided. So usually, we will be what we are doing is twofold.

[10:08 - 10:21] So for every book stuff, there's once a year, an initiative with. Okay. With ESG training providers to come to us, to give staff latest updates on ESG developments,

[10:21 - 10:29] also what we can do better in house. Eat like our own CO2 emissions footprint, our own energy use, how can we improve on that.

[10:29 - 10:40] And then there's for individual REBUG employees, that's the opportunity to use your training budgets for ESG investment related certificates.

[10:40 - 10:49] So for example, one of my colleagues, he became now a certified ESG investment analyst. So that's great. And then we've got our portfolio side and maybe more interesting on our portfolio side.

[10:49 - 11:01] We tried to bring together the head of ESG, of our major portfolio companies, to come together to us, to the holding company. And often we have an external expert as a guest.

[11:02 - 11:14] So to say, to give up just the latest updates and topics that are relevant for all of our portfolio companies, such as CSDB, e-Taxonomy and so on. This is what we are trying to achieve across the portfolio.

[11:14 - 11:26] was okay okay perfect thank you for that and then looking at the management internally um is the [esg impact of the project of a manager](#) so specifically for the manage is that tracked so for example is

[11:26 - 11:34] the manager doing well or not on the esg impact through its uh it's like what he's doing uh yeah

[11:34 - 11:46] so in at ÖBAG what you have to look at is so we nominate board members in our portfolio companies and the majority of the or the managers at ÖBAG are often represented in the boards of the

[11:46 - 11:58] portfolio companies and one of the major tasks is also to design the remuneration systems uh in their in their in their function as a board member of the remuneration committee and there

[11:58 - 12:10] nowadays so all of uh urban's major portfolio companies have these metrics incorporated in the remuneration systems which means that part of their bonus is only paid out of the purpose of the esg target

[12:10 - 12:20] and they are designed very much according to industry standards uh what is what is what are the material topics in these industries and where uh the board members believe that there is room

[12:20 - 12:33] for improvement for the company ah okay okay so it's always linked through the the the firms themselves uh ÖBAG itself do they give them bonuses based on the asg criteria or is it already done

[12:33 - 12:44] through the funds and through the companies and so not through their back so to be honest in my uh so i'm i'm i do not have a match i do not have uh insights on the management compensation system with rubac

[12:45 - 12:58] yes uh the only one that's disclosed is the one of the ceo the ceo um which is a base salary and then uh part of the variable pay and in the variable pay i think in recent years there was

[12:58 - 13:08] a component on uh on esg as well uh but i'm not sure i would need to check if it's publicly disclosed or not okay okay of course uh and yeah

[13:11 - 13:22] middle management staff is then yeah you have also qualitative goals uh that are related to sustainability topics okay okay perfect thank you that was very clear um and then maybe it's

[13:22 - 13:33] related actually to what you just said so i think it will be yes but does the front end actively exercise its voting rights in portfolio companies and then using it for esg topics i did get the

[13:33 - 13:45] feeling that you already answered this through yes but i just want to double check and confirm that it's that it's correct uh yeah so there's uh executive board members sitting on the board

[13:45 - 13:54] of portfolio companies and they exercise the right um the rights as board members and uh often or in

[13:54 - 14:06] if it's aligned with ubox mandate or they're also they're what i say if it's if it's aligned with what they believe to be right for the firm and sustainability they exercise the voting rights

[14:06 - 14:18] and also we share all of the vhms uh exercise our rights yeah mm-hmm both on the whole and what level okay okay perfect so for now it was already very clear there is for example

[14:18 - 14:30] sorry a clearer idea for example one of the voting rights that we have is uh to nominate the board members in our portfolio companies okay and in recent years some supervisory board

[14:30 - 14:42] members billbuck appointed like 55 percent women uh so we we actually appointed more women than men in board positions okay so this you could say as one way where we're trying to or where there's an esg focus also

[14:42 - 14:53] on increasing the diversity among the supervisor boards and all the company okay okay perfect thank you uh looking then at the target companies companies themselves so you

[14:53 - 15:03] already said there was this uh assessment in terms of environmental assessment and the [co2 assessment](#) that you already said other than also clear [esg milestones](#) and targets that you set

[15:03 - 15:13] towards the the firms in the portfolio so more future oriented really yeah so usually exactly the management uh comes with a suggestion on how they are

[15:13 - 15:23] **developing their esg strategy** and what we are **what we want to see** from our position as shareholders and those from the board's position is that the targets are quantifiable

[15:23 - 15:33] and that there is a clear milestone trajectory so that's not that's called for 2050 only it's in carbon etiology and if 50 we would prefer we would like to see uh **interim targets**

[15:33 - 15:38] say 2025 20 30 and so on uh just if people rush that's something like that or at least

[15:38 - 15:50] I think actually we are actively pushing, we're actually pushing for, also from a personal view, it's important to have clear accountability over the short term as well to the direction we're headed.

[15:51 - 16:00] Okay, and this is both like on all the different ESG, so on the environmental, but also, for example, on governance standards that have to be implemented, right?

[16:00 - 16:22] Yeah, we always have milestones, and usually, so when we know that there's a regulatory, mandatory regulation coming up in recent years, we try to put these items on the agenda as well earlier so that the companies are well prepared for mandatory legislations that are coming up in the next years as well.

[16:24 - 16:30] Okay, okay, perfect. A final question on the specifics of the target company. Have you ever increased development?

[16:30 - 16:42] Have you ever [increased the value of a firm](#) in your portfolio through ESG initiatives, or is that not really being tracked, if it's really linked to that, so more specifically? Yeah, I mean, that's a good question.

[16:43 - 16:52] There's one interesting, you can look at the chart, I mean, yourself, but one of our clear ESG companies is Fairfund, which is a hydropower firm.

[16:52 - 17:00] They are 51% owned by the State of Austria, or the Southern World Fund.

[17:00 - 17:15] And they have a management mandate, and when you see their stock performance, I mean, you can see how a renewable energy player has increased its value towards investors in recent years, and yeah, I'll leave it at that.

[17:15 - 17:22] But yeah, we track both the ESG performance of our companies, and we check their performance in the stock markets.

[17:22 - 17:34] If it's a private company, we also assess the fair value of the company and see progression through ESG and value. And we also assess the ESG value creation and value performance. Okay, okay, perfect.

[17:34 - 17:38] That sounds good. Then two final questions and more future related.

[17:40 - 17:50] Do you think, so this is more for you on a personal view, do you think ESG criteria will even become [more important in the future](#)? And then in which way would you see that?

[17:52 - 18:02] From an investor's perspective, or how do you see it? Yes, indeed. So from an investor's perspective and then for you within the fund, but indeed more from an investor's perspective. Yeah, correct me.

[18:05 - 18:07] Yeah, it's interesting.

[18:07 - 18:21] I just spent a period at Wharton Business School, so I got more of the U.S. perspective, and the U.S. is not as actively pushing for ESG investments or ESG-focused investment industry.

[18:21 - 18:29] Actually, now, like in previous years, it's even been like a huge lashback at the ESG activists.

[18:31 - 18:40] But for investors, even being here in Europe and also from my passion in sustainability, I obviously believe that ESG will play an important role in value creation.

[18:41 - 18:45] Because sustainability is also related to the financial sustainability of the firm.

[18:45 - 18:59] And when you think of the value of the firm, it's always the, from a finance perspective, the future value of all, the present value of all future cash flows, and I believe that the company that's well encrypted for the long term future will ultimately also increase its value for the shareholders.

[19:00 - 19:12] Okay. Okay. Okay, perfect. And then finally, what do you think are the next steps at the front end? What are you now looking at in [implementing ESG criteria or some next](#), if you can, of course, give the answer.

[19:13 - 19:25] Yeah, of course, I will talk to my management about this in the next month. So I'm currently on vacation, so I will be coming back only two months. But what I would love to do is to have a true value of the dividends

[19:25 - 19:36] and the dividends we are creating as a seven-wealth fund for the state. And by true value, I mean incorporating, not only looking at the financial value generated,

[19:36 - 19:45] but also looking at how our portfolio companies are creating the positive or negative externalities

[19:46 - 19:55] both for the environment and society and accounting that in our reporting framework to the external parties as well. I'm not sure if I'm going to be successful.

[19:55 - 20:07] But I feel it could be a very interesting, extremely interesting thought process to go from.

**END**

Okay, perfect. Thank you very much.

[20:07 - 20:18] Those were actually all the questions related to the research itself and that I needed to build research upon. So thank you very much. But also on a personal side, I found it very interesting the way you talked about it.

[20:18 - 20:28] I clearly saw the passion you have for that. So I can only imagine. Thank you. Of course. Thank you. And pleasure. Okay, perfect.

[20:28 - 20:40] And maybe quickly on the, because I found it interesting that you addressed the topic of biodiversity, because I'm currently also in my internship. This is also a big thing that we now want to implement. It's at the European Investment Bank.

[20:41 - 20:53] Yeah. So that's indeed an interesting one. We are, for example, looking at the NCORE tool that was developed, I think, with the United Nations. So, and looking with them.

[20:54 - 21:04] I'll send the link there. Because for us, it's a biodiversity. We want to monitor it and we want to have a quantitative approach towards it. But at the moment, I was seeing like this a year ago.

[21:05 - 21:17] Also, I'm curious about how you're going to collect the ESG data. But we use Refinitiv because we felt like we got most of the data from there. We're like the most comprehensive data provider. And the way most data collectors operate is for biodiversity.

[21:17 - 21:30] We have like a yes-no metric system. But they have like, does the company have a policy to reduce the impact on biodiversity? Do we have initiatives to reduce the impact on biodiversity? And then it's like a yes-no checkbox. But not a quantitative API.

[21:32 - 21:41] And that's something where I'm actually kind of passionate about. We tried to calculate something about it with an initiative called Sustainability Data Science Challenge.

[21:42 - 21:53] So we invited some data scientists to analyze the, to use the satellite images to analyze the properties of other companies. And then tried to come up with a biodiversity score based on how many trees there are.

[21:53 - 22:04] How much green area there is. How much rain can stick up through the soil. Or if it's like a baton soil. So that's what we looked up to come up with some quantification of biodiversity impacts.

[22:08 - 22:16] I don't know how to address it. How does the EEB address it? How did they go for it? To be honest, we are now really in the early stages. We are trying to build up that methodology.

[22:16 - 22:29] And we were now looking at something more related towards indeed geographical, the geography of the companies. And then looking at their impact. But we are now mainly basing on mining initiatives and looking for example that.

[22:29 - 22:35] Because it's a very known one to have a big impact for biodiversity. But we are also really at the beginning stages.

[22:35 - 22:47] And I think in the end we will mostly outsource some to consultings who will help us there to get the insights better. But so for now as I was saying that the model is true. Usually true.

[22:47 - 22:57] We are looking at ANCOR now. And working with that. And so geography based indeed. Okay. Yeah. That's a very important topic.

[22:57 - 23:06] And we also have some discussions with scientists and chemists who are just going up besides my main job as an investment manager.

[23:06 - 23:16] And they are saying that biodiversity is actually like the amount of animal species that have died out.

[23:16 - 23:29] And recently it's more dramatic than how climate change is accelerating. So it's interesting. And businesses have played a role in it. I certainly believe that. But it's so difficult to monitor the actual impact.

[23:29 - 23:42] And that's when you cannot measure it. It's difficult also from a shareholder perspective to inspire change. Yeah. Yeah. I agree there. Okay. Interesting that you're also working on that then. No.

[23:42 - 23:54] Thanks once again. And may I just quickly ask when did you start? Because you said you co-created NDEG. This is from a personal interest. Yeah. 2021. Okay.

[23:54 - 24:06] Actually, my first project was developing this ESG performance system together with the experts. Then an operating role. Then I started to update the models.

[24:06 - 24:12] Then after a while they asked me if I want to continue to do that and continue to develop it.

[24:12 - 24:24] And then I was responsible for conducting this ESG portfolio monitoring. Yeah. That we've designed together. And now it's already in year four.

[24:25 - 24:35] And a colleague of mine is doing it now as my successor. So I'm excited to see it happening. And it's actually something very important that we do that every year.

[24:35 - 24:47] And so it shows some consistency that we value sustainable development in our companies. Yeah. It grew. It grew. It grows every time. Clearly. Okay. Perfect.

[24:47 - 24:59] Well, thanks a lot once again on a personal side. And also for the experience. I'm excited because on both ways you helped me a lot. And it was really exciting to listen to you. So thanks a lot, Stefan. Perfect. Okay.

[24:59 - 25:11] Thank you, Nick. And then let me know when the transcript is ready. Yes. Yes. Once they're ready, I will send them and you can confirm. Okay. Perfect. Thank you. Have a good one. Thanks. You too. Have a nice day. Bye. Bye. Bye.

[25:19 - 25:20] Bye. Bye.

**BPIFRANCE**

## **Does the fund use negative screening methods to exclude investments in highly polluting businesses?**

First of all, we have an ESG exclusion policy for some sectors:

- Pornography: The production of or trade in pornography or prostitution
- Tobacco: The principal activity of manufacturing, storing, or selling tobacco, including vaping
- Gambling: The principal activity of dealing in games of chance and gambling
- Non-conventional weapons: The production, stockpiling, distribution, marketing, or use of:
  - anti-personnel mines
  - cluster bombs.
  - chemical weapons
  - biological weapons
  - nuclear weapons
- Coal: The production and use of thermal coal (mines, power stations)
- Oil and gas: Extraction, production, transport and infrastructure related to oil and natural gas, excluding parapetroleum companies.
- Commodities: Speculation in agricultural commodities

Then, we use a screening method before investment, to identify red flags on E, S and G topics. For VC funds (pre-seed, seed), we put a digital platform for investors, with a check list on different items:

- Climate change (carbon print estimation, decarbonation path definition),
- Adaptation risks,
- Use of dangerous materials,
- Pollution of air, water, soils
- Water management
- Waste management and circular economy actions.
- Impact on biodiversity and ecosystems preservation
- ...

## **2. Does the fund use positive screening methods, based on best practice ESG processes?**

Yes see question 1, red flags and green flags on ESG items

## **3. Do ESG factors considered in the assessment depend on the industry of the target firm?**

As said, we excluded some sectors in advance.

For VC, we don't sectorize our screening. The maturity is low, we are on projection and not on effective performance, so not yet justified.

**4. Are there trainings provided by the fund to its staff, focussing on ESG/ Responsible Investments in light of investment decisions? If yes, what types of trainings/ are they mandatory? Do you find them helpful?**

Yes, the awareness of staff is essential to include ESG items as decisions criteria for investment.

We deploy “fresques du climat » for all collaborators.

We organize trainings on “CSRD basis”, and “keys to define CSR roadmap” for a part.

We are developing a digital platform to support investors during pre-deal phase (to identify red flags), and post-investment to define 3-4 key ESG KPIs, and follow an action plan with the part. The aim is to follow the progression of the part on these items, and to give the tools to investor to help to do that.

We are recruiting a dedicated people to support our participations and investors on these topics. Support investors and companies is very important on these new durability subjects.

**5. Have you ever increased the value of a firm in your portfolio by implementing ESG initiatives or considering Responsible Investment criteria?**

Not yet. In venture capital the priority is to stabilize the creation of the company, find the first clients, turnover, recruitment...

The aim is to take in account ESG criteria to support the company to take decisions in adequation with future environment challenges.

**6. Is the ESG impact of the projects of a manager tracked/ reviewed? If yes, how?**

In our ESG clauses of the shareholders' agreement, we require to define with the company minimum 3 or 4 ESG KPI ESG, to follow the progression.

The aim is to discuss at least one per year during board on ESG topics.

And we consolidate some key ESG KPIs (on carbon footprint, mixity, labels...) for all VC funds to pilot the evolution.

**7. Are there bonuses for fund managers linked to ESG criteria? If yes, which types of criteria?**

No

**8. Does the fund actively exercise its voting rights in portfolio companies, if yes was it ever used on ESG-related topics?**

We always are in minority on “tour de table”. We encourage our invertor on board to share ESG topics.

**9. Are the ESG results of your portfolio companies being tracked? If yes, how?**

We are implementing an dashboard with consolidated ESG KPIs for our portfolio (carbon footpring, ACV, mixity, labels, ESG discussion on board).

We don't track ESG results yet.

**10. Are there CO2 assessments of your investments?**

No (low CO2 emission for innovation part, low maturity)

**11. Are there management bonuses for the management of your portfolio firms? If yes, are there any ESG related ones?**

No

**12. Are there ESG milestones being set for the firms in your portfolio?**

No

**13. Are there minimum governance standards your target companies need to comply to after you invested in them? (e.g., code of conduct)**

Code of conducts, exclusion policy, requirement to have at minimum part time of a people dedicated to ESG topics

**14. Do you think ESG criteria will become more important in the future (personal opinion)? If yes, why?**

Yes, ESG criteria will become more important in the future. The consequences of climate change will be increasingly visible and restrictive for populations, so consumers, and so financial world.

The target set by the EU is a 55% reduction in GHG emissions by 2030 (compared with 1990) and carbon neutrality by 2050.

ESG criteria will help mitigate transition risks for companies:

- Regulations: carbon price increase, ban of combustion engine cars sales
- markets: changes in consumer behavior
- technologies: e.g. development cost of new low-carbon technologies
- reputation: e.g. stigmatization of a sector, publication of damaging reports by NGOs, greenwashing)

Take in account adaptation risks for new industrial implementation will be too mandatory.

CSRD deployment will help to this change for big companies.

**15. Are there any planned steps on how ESG criteria will be implemented in the fund in the future?**

We progress all days. We have improved our ESG due diligence, train and put a digital platform to our investors, we are supporting our new parts to define a CSR roadmap and implementing a follow-up of CSR actions, with objectives and KPIs.

**16. Which ESG data are being used? E.g., is there an own internal methodology developed in the fund, does the fund have a dedicated ESG team or is it sourced externally...**

We use ESG data collected with annual campaigns (LPs, FranceInvest), with PAI's; And we define main ESG KPIs specifically for innovation. The aim is to use these data to have benchmark on ESG practices.

We will have a dedicated person to support our parts on ESG items and help to define ESG roadmap, and we sourced externally for specific points (carbon print estimation, life cycle assessment..).

**17. Is the impact of the ESG criteria on financial sustainability considered?**

We take in account transition risks.

ISIF

[00:00 - 00:11] Then I will now start recording it on my phone as well. Perfect, so maybe just a quick context. So this is academic research for the Louvain School of Management and I'm assessing the ESG

[00:11 - 00:17] strategy of sovereign wealth funds like here the Ireland Strategic Investment Fund and the impact

[00:17 - 00:26] on their target companies and their ESG strategies. Okay, perfect. So the first question is actually

[00:26 - 00:33] if the fund uses [negative screening methods](#) to exclude investments in highly polluting businesses?

[00:35 - 00:46] **Yes, we do have negative screening** but we also have by legislation we have something in Ireland called the Fossil Fuel Divestment Act which means we don't invest in fossil

[00:46 - 00:56] companies that have more than 20% of their revenue generated from coal, oil, gas. So yeah, we do that and before that we had a high

[00:56 - 01:05] carbon exclusion as well. We have other exclusions around nuclear weapons, tobacco and things like that but certainly around fossil fuels yes. **Okay,** perfect, and on the other hand

[01:05 - 01:18] are there also [positive screening methods](#) so more based on their best practices ESG processes to invest in? It wouldn't be per se positive but again to our investment managers

[01:18 - 01:24] we would ensure that they do a very high level of **ESG due diligence on the investments** in which they make.

[01:24 - 01:35] So we would be members of the UN principles of responsible investing and so would all of our investment managers who work for the fund. So we have two sides to the Ireland Strategic Investment Fund.

[01:35 - 01:44] One is our **global portfolio**, which is really the feedstock. It's about 5 billion and that feeds into the **Irish portfolio**, which is an impact fund, which is invested in Ireland.

[01:45 - 01:55] So again, we adapt our approach to ESG depending on it. But certainly for our global fund, ESG has to be integrated with our investment managers. **Okay,** perfect.

[01:56 - 02:06] And then are there [trainings](#) provided by the fund to its staff focusing on ESG or responsible investments in light of the investment decisions?

[02:07 - 02:19] Yes, so we have an investment, we have an ESG framework that we use for all our Irish portfolio, our direct investments. And myself and my team would carry out the **training** with the...

[02:19 - 02:30] ...**investment and the deal teams**, they are responsible for carrying out ESG due diligence, climate questionnaires, and presenting an overarching kind of ESG assessment of a potential investment.

[02:30 - 02:35] We work closely with the deal teams as oversight before we go to our investment committee.

[02:36 - 02:46] So it's very much, we would be the oversight and the standard setter within the sustainable responsible investment team, but it's actually our investment managers and analysts and deal team makers.

[02:47 - 02:54] They actually implement our ESG. So we are the ESG framework. **Okay, perfect. That makes sense. Very clear.**

[02:54 - 03:07] Is the **ESG impact of the projects of a manager tracked** and reviewed then, so of the manager itself? So again, two systems, the global portfolio is, we have ongoing oversight of that.

[03:07 - 03:19] We use **ISS ESG** does all our portfolio analytics independently of our investment managers who, again, they need to report on environmental social governance matters. But we also use, we also do our own oversight.

[03:19 - 03:31] We do oversight of that with our Irish portfolio, with the direct investments in our mandate, which is kind of economic impact and job creation in Ireland. We would do an annual review with all our investees.

[03:31 - 03:41] And part of that annual review is ESG. So we look at their policies, we look at their improvements, we help them try and give advice where we can on ESG matters.

[03:41 - 03:53] And again, we kind of set think targets around 30% female representation on boards and senior management. There's a couple of kind of priority issues, which we look at. If we have climate would be one, DEI would be another, but we would cover all aspects.

[03:53 - 04:06] And again, we work with the companies and look to see improvements over time. **Okay, perfect. Maybe jumping on that aspect, like the annual ESG review, which data is then being used?**

[04:06 - 04:18] Is it an own **internal methodology or is it developed by the front end** that you have developed? Or is this dedicated towards like an outside ESG team sourced externally? How should I see that assessment?

[04:21 - 04:31] So again, for the Irish fund, we have our own internal assessment. It is aligned with Invest Europe. So they would have an ESG survey and kind of templates.

[04:31 - 04:44] But we do an annual survey every year, which looks at the economic impact. And there's an ESG template. So we ask a number of ESG questions as part of that annual survey, in addition to the annual reviews that we have with each of the investment managers.

[04:44 - 04:56] But the annual survey that we do, that those ESG questions are aligned with Invest Europe. We don't take all of the Invest Europe. ESG framework. There are just too many questions. And again, don't collect data unless you're going to use it.

[04:56 - 05:09] So we collect the data that we want to use. Okay, okay, perfect. That really makes sense. Thanks a lot for that. Then going further, are there [bonuses for the fund managers linked to ESG criteria](#) itself?

[05:10 - 05:20] No. No? Okay. Okay, perfect. And then does the fund actively exercise its [voting rights in portfolio companies](#)? And was this ever?

[05:20 - 05:27] If yes, was this ever used on ESG related topics? Absolutely. Yes. Front and center.

[05:27 - 05:37] So again, particularly on our global portfolio, we work with EOS, the Federated Hermes, who vote on our behalf across all of our investment managers for all our listed companies.

[05:38 - 05:50] And again, they very much focus on environmental, social and governance matters. That's what they're voting on for us. So they do that on the global portfolio and within the Irish portfolio for those companies that are listed or those private companies.

[05:50 - 06:03] So if we have seats on the board, then ESG is important. But again, we would vote ourselves and we would consider environmental, social governance matters and any AGMs in our private portfolio as well. Okay, okay, perfect.

[06:03 - 06:17] And then looking at, because you were talking about the ESG questions in the questionnaire, could I have like kind of a view of which percentage of the questions would be more environmentally related, socially related or governance related?

[06:19 - 06:28] It's actually pretty much the same. It's not much an **even split**, probably slightly more. Oh, actually, it's pretty even split because we again, it's on quite a lot of it's on climate.

[06:29 - 06:42] The social side, we do a lot of DEI, health and safety, governance around cybersecurity, those kind of things. So as I said, it's quite a small and pointed questionnaire, but I'd actually say it's pretty evenly split across the three.

[06:43 - 06:55] Okay, perfect. And then concerning like the more environmental aspect. Are there [CO2 emission assessments](#) of your investments? Is it also part of it?

[06:56 - 07:08] Yes. So again, we produce a climate report every year. It is not, it's a TCFD aligned climate report. So we have far more data, as you can imagine, on our global portfolio.

[07:08 - 07:19] So again, ISS does all of that. So we have scenario analysis, physical risk, total emissions, all of that kind of stuff in our Irish portfolio, predominantly because it is private. Okay.

[07:19 - 07:26] So we have our own internal, we brought in a company to design us a way to calculate our scope one, two.

[07:26 - 07:36] And again, this is all estimated scope one, two and upstream scope three emissions. So again, we report on that annually. That's in our climate report.

[07:36 - 07:48] We also report on our weighted average carbon intensity for the per million euro invested, per million euro revenue generated. So we've a weighted average carbon intensity for that.

[07:48 - 07:54] So that's all publicly available in our climate report. Okay, perfect. Okay. Thank you very much for that.

[07:55 - 08:07] Then looking at the portfolio firms themselves, do you also set specific [ESG milestones](#) that they need to follow throughout the years then? We don't have specific milestones.

[08:07 - 08:20] Again, looking at our kind of global one, we did set a target of a 50% reduction in our total emissions for our global portfolio by 2025. We have reached and exceeded that within the global portfolio.

[08:20 - 08:30] I would say that is predominantly driven by our fossil fuel divestment in the global portfolio. In the Irish portfolio, we do have targets around, particularly around DEI.

[08:30 - 08:35] On the climate side, we're looking for people to at least sign up to net zero.

[08:35 - 08:45] We have an independent, actually a research group working with us who are doing assessments on climate for all the underlying investment companies, a company called Sociovestec,

[08:45 - 08:57] which is headed up by Professor Andreas Hoppner in UCD in Dublin, University College, Dublin. And they kind of do an independent third party view of all of our investments in relation to climate and how the companies are changing.

[08:57 - 09:04] And they look at everything straight from their website. Do they recognize climate? Do they have a net zero target? Do they publish any climate data?

[09:04 - 09:16] So that is actually information we then use in our annual engagement with those companies to encourage them to go on the journey in relation to climate. Some of these could be tech startups. It could be one person in a computer. It's not a company. It's not really relevant.

[09:16 - 09:22] But it enables us to have the data, independent data on them and to engage.

[09:22 - 09:33] So we don't set firm targets because people like, you know, we could be investing in an Aer Lingus, which has 1.5 billion last year revenue. And there could be smaller companies with our portfolio, which are just startups.

[09:33 - 09:46] So it just it has to be tailored to each individual company and it's working with them in a positive way. So we do that through, again, just data collection and engagement. Okay, perfect. And then maybe one specific one. Related to this.

[09:46 - 09:57] Are there any [minimum governance standards](#) your target companies need to comply like after you invested in them? For example, a code of conduct or something? No, they don't.

[09:57 - 10:10] Not a set standard, but we would expect them to have ESG policies. We'd expect them to have diversity, equity inclusion policies, certain HR policies. So again, we would look for them to have basic systems in place.

[10:10 - 10:19] Obviously, with round to climate and data gathering, it's still a lot for a lot of companies. They're trying to survive. They're not terribly worried about scope on the two emissions.

[10:20 - 10:32] But again, we give them advice where we can on how to start collating that data and how to set themselves up for it. But no, we do expect basic, particularly fund managers, reporting on ESG matters.

[10:32 - 10:45] So again, for a large fund, we'd expect them to have an ESG report for us every year. We'd expect to see it on the board agenda annually with the loan partners as well. And then again, with smaller companies.

[10:46 - 10:58] It's about, so we would do some direct investments as well as investing in funds. And again, we would work with those companies looking to ensure that they

have the correct policies and procedures in place that you would expect in any well-governed company.

[10:59 - 11:12] Okay. Okay, perfect. Very clear. Usually what we find is we ask, we say that they do, they have an ESG policy and they don't. But by the time we give them the money, they do. So many times it's about asking the question.

[11:12 - 11:19] We want to see your ESG policy. And a lot of them won't have them. And we said, well, it's time to have one. It's time to create one for your company.

[11:19 - 11:32] So actually, again, we're very much quite often the catalyst for some of these smaller companies to go on that journey as an investor saying, this is what we want to see. Okay, so much. Okay. Push oriented.

[11:32 - 11:44] I see. Okay, perfect. Thank you very much already. I have three final questions then actually. Maybe first of all, it's also then to another extent, the impact of the ESG criteria on the fund.

[11:44 - 11:53] Is it the financial sustainability of your firms, of the firms you invest in considered? And how would you see that? It is.

[11:53 - 12:01] Well, we have an overarching view that sustainably and responsibly invested funds or companies will perform better over the long term.

[12:02 - 12:13] And I think there's, you know, I recently was reading a paper by Rockefeller asset managers where they reviewed over a thousand research papers on ESG and performance. And the view is if a company is responsibly managed.

[12:13 - 12:20] And when you're responsibly managed, you consider environmental, social and government risks and matters that you will perform better over the long term.

[12:20 - 12:33] And that is basically the ethos of which we operate, that we are a responsible investor and the performance will be there over the long term. We are a long term investor and that's important. That's again, as would be the same with most sovereign wealth funds.

[12:35 - 12:47] Okay, perfect. And then are there any planned steps on how ESG criteria will be implemented in the fund towards the future? Like any next steps you're now considering and working on? If you can disclose, of course.

[12:47 - 12:57] At the moment, we're working on two new sovereign wealth funds. So we're kind of busy trying to set up in Ireland. We'll be creating two new sovereign wealth funds this year.

[12:57 - 13:05] One called the Future Ireland Fund and one called the Infrastructure, Climate and Nature Fund. In addition to the Ireland Strategic Investment Fund.

[13:06 - 13:17] So at the moment, I'm currently trying to set up the approach to ESG and responsible investing for all three funds. They're all doing slightly different things. But it's really about engagement.

[13:18 - 13:30] It's about understanding, you know, what are the matters of the day that are of concern to people and how are we managing those risks? I think certainly a risk that we're all grappling with is biodiversity, ecosystem loss.

[13:30 - 13:41] And there's really good tangible data now around climate and understanding how climate does affect financial performance, provides both risks and opportunities. The same then.

[13:41 - 13:52] I suppose we need to go on that journey in relation to biodiversity and ecosystem. So that's, I suppose, where our focus after we get the new fund set up, which is our priority at the moment.

[13:52 - 14:01] We'll be looking at biodiversity and how that affects and how we tackle that as a sovereign wealth fund. Certainly our investment managers are aware of it.

[14:01 - 14:11] And I think there's a growing understanding that, again, a bit like climate, if our biodiversity or if our ecosystems fail, then, you know, that has a significant impact.

[14:11 - 14:18] It has a significant impact on the global economy and ultimately, therefore, your investments and your return. It's something that does need to be managed and understood.

[14:18 - 14:26] So we would certainly, we'll be starting to talk about biodiversity with our investees and talking about biodiversity with our investment managers and our global funds.

[14:27 - 14:37] And understanding that that is a key thing that needs to be protected as part of this and enhanced as we go forward. Okay, perfect.

[14:38 - 14:45] And then the final question is just more personal. Personal opinion out of the research.

[14:45 - 14:51] Like, [how do you see that the ESG criteria will become more important from an investor's perspective?](#)

[14:52 - 15:01] So from a sovereign wealth fund perspective, what will be really the crucial driver on why ESG criteria will become more important, if they will, in your view?

[15:02 - 15:10] I think they're going to become more important because as we see with the impacts of climate change, there is a lot of physical impacts. Mm-hmm.

[15:11 - 15:23] In relation to a lot of ESG matters at the moment, whether that's the geopolitical unrest in the world, climate change, biodiversity. And it has already can be

seen to have direct impacts on the investment universe, the universe in which we operate.

[15:23 - 15:33] But I also think ESG from a European, particularly from a European perspective with the CSRG regulation coming into being, EU taxonomy, that link.

[15:33 - 15:40] We're now going to be talking as much about ESG reporting as we are financial reporting. Those two will be linked together.

[15:40 - 15:49] So I see, again, that understanding of how those impacts affect financial performance will grow over time. And therefore, the importance of ESG will actually grow.

[15:49 - 16:02] And you will certainly see that as an outcome, I think, of the CSRG regulations. And behind that will be the CDDD, the Corporate Sustainable Due Diligence Directive. So not only will you now be told to measure it, you'll be told to manage it.

[16:03 - 16:13] So again, I think you're going to see a lot of change in this space over the next 10 years. It's going to be a lot of heavy lifting. The corporates are going to be very challenged by this.

[16:14 - 16:25] But I think you will see there's going to be a positive impact on it. What will happen in America or elsewhere, we'll see where it goes. But it is still about managing risk. And ESG is no different to any other financial risk.

[16:26 - 16:38] It's about managing, you know, you have a fiduciary duty to manage the assets of which are in your control. We do it on behalf of the Irish state. And we need to do it carefully. And all of these things impact on the risk to us. And we need to do that investment.

[16:39 - 16:51] So I can just see it growing and particularly in Europe. Okay. Okay, perfect. Thank you very much for those insights. Those were actually all the questions that I had related to my research.

[16:51 - 17:03] And you answered them in a very good way, like in a very precise way. So that really helps a lot with getting the right insights, to be honest. Yeah, no problem at all. Happy to help.

[17:03 - 17:07] As I said, we're, as I say, at the moment we're in the throes of now trying to set up two new funds.

[17:08 - 17:23] And interestingly enough, as a point of note for your research, it is now specifically referenced in the new legislation for the new funds that we must consider in relation to the performance risks, including environmental, social and governance matters.

[17:24 - 17:34] So that's now written into the legislation for these new funds, which is, I don't think there's anywhere quite in the world that's put us as upfront as that and questioning what we should or should not invest in.

[17:35 - 17:42] So the new legislation for the Future Ireland Fund. And the Infrastructure Climate and Nature Fund, the draft legislation is available on our government website.

[17:43 - 17:54] But it actually specifically calls out the risks associated with environmental, social and governance matter and that we must manage it as part of the overall performance of these new funds. Okay, that's indeed quite impressive.

[17:54 - 18:05] That's really at the backbone of those funds. Okay, thank you for that insight as well. Yeah, no problem at all. Okay, in that case, thank you very much once again.

[18:05 - 18:14] It was also very nice for myself to talk to you. To get those insights and helpful for the research. And yeah, I of course also wish you an amazing weekend.

[18:18 - 18:28] Let's hope the sun shines. We get out into the hills and out on the water. Summer is finally arriving in Ireland. It's not great, but it's finally arriving in Ireland.

[18:28 - 18:40] Indeed, it's always a better time, I can imagine. Listen, thanks a lot, Nick. And the very best of luck with your research. Perfect. Thank you very much. Have a nice weekend. Bye. Bye-bye.

**FUTURE FUND**

1. Are there trainings provided by the fund to its staff, focussing on ESG/ Responsible Investments in light of investment decisions? If yes, what types of trainings/ are they mandatory? Do you find them helpful?
  - Training and information sessions are available to all staff, as well as presentations tailored specifically for the investment team. A broad range of ESG topics are included, for example: climate, carbon markets, exclusions, sanctions, board governance, modern slavery, cyber-security, proxy voting, biodiversity etc. This helps with awareness eg in investment due diligence and risk assessment.
  - The Investment Stewardship and ESG team, which sits within the Investment Team, are subject matter experts on various ESG topics and work closely with the investment team on investment due diligence and oversees the Fund's stewardship activities. The ESG team attend industry events and courses to maintain their knowledge.
  
2. Does the fund use positive screening methods, based on best practice ESG processes?
  - No. However, some of our external investment managers, who manage money on our behalf, may use positive screening.
  
3. Do ESG factors considered in the assessment depend on the industry of the target firm?
  - Very much so. For example, when engaging with investee companies or assets in our portfolio, we focus on the ESG risks and opportunities that are most relevant and likely to have the most material impact on the sustainability and financial performance of their business.
  - We invest through external investment managers, and we assess the manager's ESG integration capability and ESG factors in their investment strategy.
  
4. Have you ever increased the value of a firm in your portfolio by implementing ESG initiatives or considering Responsible Investment criteria?
  - This is always difficult to answer as we are not the only investor engaging with the public companies we invest in. While increased value is difficult to attribute to any single investor's initiatives, we can be certain that the combined effort of investors has improved companies' ESG performance, reduced risk and improved access to capital.
  - In private markets eg private equity, some of our external investment managers have an active management approach, which includes managing and improving ESG factors in an investee company. It is believed this can reduce risks, contribute to value accretion, and can make their investee company more attractive to potential buyers on exit.
  
5. How do you monitor the extent to which your managers are effectively managing ESG-related investment?
  - Our ESG-related expectations are communicated to external investment managers as part of the selection and due-diligence process. We meet regularly with our listed equity managers to discuss their ESG and stewardship programs. We also conduct routine ESG reviews of incumbent managers in other asset classes.

- Our monitoring of investment managers continues to evolve, and we are currently working on developing and applying a standard set of ESG metrics for external investment managers/strategies to report on across the portfolio.
6. Are there bonuses for fund managers linked to ESG criteria? If yes, which types of criteria?
    - Not specifically, though external investment managers' adherence to our mandate is monitored and action is taken for instances on non-compliance.
  7. Has the fund actively exercised its voting rights in portfolio companies on ESG-related topics?
    - All voting rights are exercised, including those relating to ESG topics.
  8. Are the ESG results of your portfolio companies being tracked? If yes, how?
    - The Future Fund monitors various metrics for our portfolio companies. Where there are specific concerns (eg. in relation to governance breaches, high carbon emissions, modern slavery, diversity etc) companies will added to a watchlist and be subject to increased monitoring and engagement.
    - As highlighted above, we are developing a standard set of ESG metrics for external investment managers/strategies to report on across the portfolio.
  9. Are there CO2 assessments of your investments?
    - Yes. Carbon emissions is one element. We also look at physical climate risk resilience, transition risk and decarbonisation profile.
  10. Are there management bonuses for the management of your portfolio firms? If yes, are there any ESG related ones?
    - This varies across investments - some portfolio companies and assets may have ESG KPIs that can be linked to remuneration.
  11. Are there ESG milestones being set for the firms in your portfolio?
    - Not specifically. We look to our external investment managers and investee companies to set appropriate ESG milestones or targets.
  12. Are there minimum governance standards your target companies need to comply to after you invested in them? (e.g., code of conduct)
    - We invest through external investment managers who integrate ESG factors in their investment selection, and ascertain, engage or manage ESG risks e.g. governance issues and standards.
    - Where companies fall short of our governance expectations, we will usually engage with them and encourage them to correct the issue.
  13. Do you think ESG criteria will become more important in the future (personal opinion)? If yes, why?

- Yes. ESG issues are becoming more important for many reasons: our understanding of ESG issues is continually evolving, the impact of ESG issues on financial outcomes is now better understood, and ESG events are becoming more pronounced, eg. The frequency and impact of extreme weather etc.
14. Are there any planned steps on how ESG criteria will be implemented in the fund in the future?
- How ESG is incorporated into our manager selection and investment process is always evolving and maturing. Our access to high quality ESG data is improving, as is our ability to interpret and apply that data. The scope of ESG topics is constantly expanding, for example the most recent additions were biodiversity and AI.
15. Which ESG data are being used? E.g., is there an own internal methodology developed in the fund, does the fund have a dedicated ESG team or is it sourced externally.
- The ESG team are subject matter experts on various ESG topics and oversee the ESG data and information requirements.
  - We source data on various topics from a wide variety of specialist ESG data vendors. We then use our in-house capability to build proprietary tools that leverages data to screen and provide information on our portfolio.
  - We use the raw data, rather than 3rd party ESG ratings.
16. Is the impact of the ESG criteria on financial sustainability considered?
- Yes, in fact, the Future Fund's key objectives centre on financial returns and therefore ESG criteria are considered predominantly for their impact on financial sustainability.