

Vontobel Asset Management: An Integrated Approach to ESG Investing

As an active asset manager, Vontobel believes in investing with conviction, underwritten by solid fundamental research that takes environmental, social, and governance (ESG) factors into account. The firm's Swiss-based parent, Vontobel Holding AG, has a long tradition of corporate responsibility and sustainability, and has been a signatory to the United Nations' Principles for Responsible Investment (PRI) initiative since 2010.



ESG is an integral and important part of Vontobel's high quality growth philosophy, which is based on long-term investments in companies that are able to sustain stable rates of growth with reasonable predictability. In Vontobel's view, adherence to sustainable investing practices is essential to predictable long-term earnings growth. The investment team sees a healthy balance between the interests of a company's stakeholders—customers, employees, community, and environment—and its shareholders as vital for long-term sustained growth, and that risks stemming from poor management choices related to ESG issues have the potential to damage long-term investment returns.

ESG: Part and Parcel to the Investment Process

Within Vontobel's portfolios, ESG is implemented at the stock level, based on an assessment of a broad array of factors that vary considerably by industry, geography, and company. The investment team seeks to understand how a company has achieved past performance, and the opportunities and risks it faces. At this level, ESG issues have an important influence that are reflected in forecast growth and the stability of that growth. In the team's view, ESG is integral to a company's long-term earnings potential.

ESG analysis starts with reported and publicly available information, but goes deeper to look at what actions management might take in order to achieve a goal. If the team does not believe it is in line with solid ESG practices, that is a major red flag.

The team monitors individual holdings internally, and supports this work with external research. Third-party ESG providers rate Vontobel portfolios against their peers and benchmarks, providing useful information for internal and external reference, but these ratings do not directly drive stock selection.

The team has 21 research analysts, including 14 that incorporate ESG issues into their stock assessments. Three senior analysts are former investigative journalists, and offer a complementary perspective on risks and opportunities. One team member, supported by a dedicated consultant, is responsible for coordinating ESG implementation and engagement.

ESG in Practice

Vontobel assesses a company's ESG criteria specific to each area of focus.

Sustainable Use of Physical Resources

The environmental piece of ESG considers how a company performs as a steward of its physical environment. A company's resource management needs, which vary by industry and geography, include water, energy derived from carbon fuels, and biodiversity impacts.

Vontobel looks for policies and practices that make judicious use of scarce resources to avoid future shortages for the company or communities in which it operates. For example, companies that are able to reduce their reliance on scarce resources through research, enhanced operating procedures, and recycling, which can allow for volume growth with minimal environmental impact. Vontobel also considers the risks a company might pose relative to climate change, and they regularly report metrics associated with environmental impact.

Relationship with Human Capital and Community

One of the substantial risks for any company—especially those that are consumer facing—is preserving its reputation or brand. Toward this end, Vontobel looks for managements with a track record of effectively managing and protecting a company's image.

Employees are a company's thinking assets, and Vontobel looks for a safe working environment, training, opportunities, pay, and benefits that fairly reward and incentivize staff. In industries where employees manage sensitive operations, such as bank risk officers, a company should provide anonymous and protected whistle blower channels.

Vontobel believes that a company should market its products in an ethical manner and take full responsibility for their safety. Here, the team looks for businesses with testing programs that are best practices and serve to provide early warnings of production problems.

Leadership's Role in Performance, Managing ESG Risks

Management decisions are central to a company's performance and how it handles ESG risks. At the top of the management pyramid, the board of directors is charged with making decisions for long-term direction. Vontobel expects to see diversification and depth of industry experience from board members. The board should work as a team to maintain growth and risk goals, values, and ethics. In general, Vontobel supports separation of CEO and chairman roles. The company should also have a suitable proportion of independent directors to reflect non-controlling shareholders.

Vontobel looks for alignment of interests among key individuals, such as controlling or influential shareholders, and expects suitable, and enforced, regulatory protections for minority shareowners. Since key-person risk can bring sharp downside risk, Vontobel wants to see a sensible back-up plan for decision-making and transition should a problem occur with a firm's key individual.

Other key governance criteria Vontobel seeks: a remuneration policy that is easy to understand as it relates to performance, with both long and short-term goals; intelligible financial reporting without regular large non-recurring items; and clear and regular shareholder communications. Lastly, in light of the increasingly dynamic regulatory environment, Vontobel believes that firms with competent leadership may successfully steer a course that can minimize associated regulation risks over time.

■ VIRTUS VONTOBEL FOREIGN OPPORTUNITIES FUND

A: JVIAX, C: JVICX, I: JVXIX, R6: VFOPX

■ VIRTUS VONTOBEL EMERGING MARKETS OPPORTUNITIES FUND

A: HEMZX, C: PICEX, I: HIEMX, R6: VREMX

■ VIRTUS VONTOBEL GLOBAL OPPORTUNITIES FUND

A: NWWOX, C: WWOCX, I: WWOIX, R6: VRGOX

■ VIRTUS VONTOBEL GREATER EUROPEAN OPPORTUNITIES FUND

A: VGEAX, C: VGEEX, I: VGEIX

About Vontobel Asset Management

Vontobel Asset Management believes that the best way to achieve capital appreciation and outperform the market over time is by investing in well-managed businesses with consistent operating histories and financial performance that have favorable long-term economic prospects.

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