

Dear readers,

The ESG clock keeps on ticking

The EU Commission's Sustainable Finance Initiative and the measures associated with it are still a long way from reaching the finishing line. Nonetheless, more and more milestones of this mammoth project have either already been reached or are at least within reach. The presentation of the so-called Green Deal about ten months ago added further momentum to the topic of Sustainable Finance and the EU Commission is also planning to present a renewed Sustainable Finance Strategy in the near future.

Various fundamental Level I (amending) acts were adopted this and last year and will become applicable as of next. These include the Disclosure Regulation, the Taxonomy Regulation, the Benchmark Regulation, or amendments to the MiFID, UCITS, AIFMD, IDD, Solvency II, or the Non-Financial Disclosures Directive. Complementary implementing legislation at Level II is also partly under way or in final vote. This increases the pressure on all financial market participants - at all levels of the value chain - to adopt a strategically and organisationally sound approach to ESG and to start, or continue, implementing the EU regulatory framework. But who can actually keep track of this tangle of directives, regulations, implementation standards, recommendations, etc.?

To the best of its ability, BAI tries to provide you with compact and up-to-date information on the most important developments and results, including those relating to ESG. Regardless of how far advanced the processes are in your own company, we highly recommend that you study the new BAI homepage carefully. There you will find a large number of specialist articles, guidelines, studies and lecture notes on the topic of ESG, as well as a very comprehensive compilation of the Sustainable Finance Initiative, including measures and legal bases, etc., under the headings "Regulation" and "Sustainable Finance". There you will also find our new BAI Fact Sheet on the Sustainable Finance Initiative which is worth reading. Besides that we also offer frequent regulatory updates via the BAI-Infomails.

We have already stressed on several occasions both that the need for action is immense and in which areas such action is needed. Starting point for each company or portfolio is, of course, the definition of an ESG strategy. This includes products, organisation and resources, risk management and - last but



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not least - data collection, measurement, and processing. Very quickly, one comes to highly practice-orientated questions, such as how to measure taxonomy-compliant investments, how to compare performance with the taxonomy thresholds, how to perform an analysis of the DNSH criterion (Do No Significant Harm) and the minimum social security requirements, or how to deal with data gaps, etc.? As far as providers or consultants are concerned, relevant questions concerning sales and consulting are added, such as target market definition, investor education, etc.

All these issues are overshadowed by the different regulatory measures such as taxonomy, disclosure, and benchmarks on the one hand, and the changes in the MiFID, AIFMD, UCITS and Solvency Directives on the other (keyword: regulatory compliance). It is precisely this interplay that poses another major challenge.

At the same time, due diligence and investment processes, as well as risk management must be designed in line with ESG requirements. Here too, there is a huge need for adaptation, especially with regard to (new) ESG labels, certifications, etc., and at the end of the day there are the manifold disclosure and reporting requirements. In the draft for so-called Regulatory Technical Standards (RTS), the European supervisory authorities (ESAs) have recently presented the bureaucratic madness that awaits all financial market participants unless experienced interest groups such as BAI constructively and critically guide the discourse.

We have strongly criticised these proposals in the course of the respective consultation. The Disclosure Regulation, which is already sufficiently specific and concrete, does not need the kind of detailing and mandatory standardisation proposed by the European supervisory authorities. All the more so due to the fact that relevant data will either not be available at all or at least not in the foreseeable future. At the same time, the draft RTS lacked important considerations and approaches, such as the principles of proportionality and materiality. Moreover, small or medium-sized financial institutions, which are generally excluded from the scope of application, would only be able to opt-in if they were fully subject to the very extensive and complex disclosure requirements. Those who opt-in on a voluntary basis or in order to comply with investors' wishes would have to undertake a disproportionate effort. The same applies to the proposed catalogue of obligations with 32 sustainability indicators, which leave no room for materiality considerations, although the disclosure regulation (on which these standards are based) requires these. In other words: not every measure launched by policymakers or supervisors under the headline of sustainability is good and/or practical. This is precisely why there is a need for a critical discourse, for which BAI is well renowned. The EU Commission has just announced that the above-mentioned RTS will not apply in March 2021, as planned, but at a later date. While this is a first step, it remains to be seen what the final RTSs will ultimately have to look like in order for the financial sector to really be able to work sensibly with them.

For this reason, it is important to act with foresight and to look left and right and consider which solutions are being pursued in the industry. I would like to take this opportunity to recommend a series of UN PRI case studies in which more than 40 asset and wealth managers have tested the practicability of the EU taxonomy and summarised their findings in a report with helpful recommendations for action. The main focus was on the operationalisation of the taxonomy framework, which will be further developed in the coming years - in respect to S and G. The report is particularly noteworthy because it contains recommendations from members of the group of policy makers and regulators who will monitor the implementation and development of the taxonomy. I therefore gladly accept PRI's request to further promote this report and thereby facilitate confidence in and implementation of the taxonomy.

All the more so as the case studies also cover alternative investments, in some cases even by BAI member companies. There are, for example, case studies on real assets/real estate from Germany, infrastructure in Europe, tangible assets such as investments in forests in Chile, Brazil and the USA, fixed income/private debt from non-EU countries, real assets from the EU, Great Britain and the USA, etc.

You will find the report, recommendations and case studies under the link below:

[LINK](#)

I noted two years ago that sustainability is characterised above all by the fact that diversity and forward-looking action are not only recognised, but encouraged. An EU-wide harmonised taxonomy can only be justified if it takes this into account and includes existing voluntary standards instead of excluding them. At the same time, I had expressed my high expectations of the discussions and attempts at definition in the relevant European expert groups. These have only partially been met so far, but the work continues. The appointment of the members of the Sustainable Finance Platform to advise the Commission, for instance on the development of robust and scientifically sound technical screening criteria for the entire EU taxonomy and further policy development, is of particular note.

Especially now, and in view of outliers such as the above-mentioned RTS draft of the ESAs, it is urgently necessary to continue to closely and constructively accompany the Sustainable Finance Initiative and the associated measures and legislative proposals. Therefore, in addition to the work in the BAI specialist committees, we will set up a separate body on the topic of sustainable finance, in which ESG managers from member companies will be able to consult and exchange views. Representatives from BAI member companies wishing to participate in such a body can contact the BAI office directly, so that we can set up a first - virtual - meeting at short notice.

BAI AIC 2021

Though this year's BAI Alternative Investor Conference unfortunately could not take place, we are doing everything in our power to be able to present this extraordinary format to you once again in 2021. Regarding our two options, virtual or hybrid AIC, we are currently engaged in an intensive and creative dialogue with sponsors, exhibitors, IT service providers, speakers and, of course, industry representatives and investors, in order to ensure that next year's AIC will allow for the professional and personal exchanges you so highly value. We are also continuing to develop the program, so let us surprise you and look forward to AIC 2021!

Presentation of the BAI Science Prize 2020

Another unfortunate victim of the COVID pandemic was the presentation of the BAI Science Prize 2020. This award for excellent scientific work in the field of alternative investments is a further figurehead of the BAI and is very popular, not only in the industry, but also in the scientific community. Once again, prize money totalling EUR 14,000 was awarded in the four different categories. A large number of top-class work was once again submitted this year, all of which highly practice-oriented. Our independent committee, which judges the submitted works, finally awarded prizes to the following entries:

In the category Bachelor Theses, the jury was most impressed by Tim Baumgartner's work on the topic "VIX Manipulation". In the category Master Theses, the work of Katharina Reiff on the topic "Comparison of different methods to calculate option returns in a simulation study" won. In the category Dissertations, the work of Dr. Gunther Glenk on the topic "Economics of Renewable Hydrogen" was honoured. Finally, the joint paper "The role of catastrophe bonds in an international multi-asset portfolio: Diversifier, hedge, or safe haven" by Prof. Dr. Wolfgang Drobetz, Prof. Dr. Henning Schröder and Prof. Lars Tegtmeier was selected as the winner in the category Other Scientific Papers.

We would like to take this opportunity to congratulate all the prize winners and we look forward to presenting the award next year, together with the presentation of the Science Prize 2021. You can find more information on this subject on our homepage under the heading "Science". The deadline for application is 28 February 2021.

Relaunch of the BAI Homepage

We informed you about the relaunch of the BAI homepage www.bvai.de back in mid-September. It now has a completely new, more modern appearance as well as new functions, sections and sub-pages. First of all, we would like to highlight the area of regulation, which has been structured according to the specialist committees for fund and market regulation, investment taxation and supervisory law for investors. You can now find all related regulatory topics at a glance under the corresponding tile with law/directive/regulation texts, related guidelines, FAQs, ongoing work, consultations, etc. In addition, there are separate sections for Sustainable Finance, Digital Finance, Infomails, BAI's comments and statements, as well as information on the specialist committees, their ongoing work, and their members. Furthermore, you will now find much more comprehensive market and sector information covering the entire spectrum of alternative investments, each with its own tile on private equity, private debt, hedge funds & liquid alternatives, real estate, infrastructure, and specialities. Additionally, our homepage has been redesigned in a clearer and more modern layout with a separate page for our current main topic. Also available in the members area are the info mails as PDF, the documentation of the AIC 2019, the Due Diligence Questionnaires and shortly the results of the new BAI Investor Survey. Just click here!

Changes in the BAI Investors Advisory Board

At this point we would like to briefly inform you that there will be a change in the BAI investors' advisory board as of 1 November 2020. In place of Dr. Gunar Lietz, Pensionskasse der Wacker Chemie VVaG, Sabine Mahnert, Head of Capital Investments at Evangelische Zusatzversorgungskasse (EZVK), will be joining the Advisory Board. We would like to take this opportunity to thank Dr. Lietz for his many years of support and look forward to working with Mrs. Mahnert. A detailed introduction of her person will be given in the next issue of the newsletter.

Main Topic ESG

I have already recommended the main topic ESG as well as the regulatory page on Sustainable Finance on the BAI homepage. Equally informative and worth reading are the following

specialist articles in this newsletter, which cover a variety of virulent topics from the world of sustainable investing.

- Hedge funds: an ESG-compliant alternative investment?, Philipp Bunnenberg, BAI e.V.
- ESG - Becoming concrete: Sustainability in supervisory law, Dr. Michael Daemgen, Arendt Regulatory & Consulting
- Fresh wind for portfolios, Alex Widmer and Harald Klug, BlackRock
- Sustainability is the "New Normal" in the property sector, Burkhard Dallosch, Deko Immobilien Investment GmbH
- Funds to fill the gap, Edda Schröder, Invest in Visions GmbH
- Megatrend sustainability: Success factor of the future, not just a passing fad, Maren Schmitz, KPMG AG Wirtschaftsprüfungsgesellschaft
- Infrastructure rethought for the energy turnaround, Raphaël Lance, Mirova, and Lukas Neubauer, Natixis Investment Managers
- Alternative Investments in times of increased market volatility, Wolfgang Dressler, PIMCO
- Delivering Data-Driven Alternatives Research in the Digital Age: A Q&A with Nicole Lee and Dave Lowery, Preqin
- Alternative Investments and ESG: On the road to normality, Dr. Sofia Harrschar and Robert Bluhm, Universal-Investment
- Fund-of-fund strategies: ESG benchmarks for "green" due diligence, by Bernd Vogt and Sören Struß, Wealthcap
- Sustainability development in the real economy as a harbinger of ESG development in the financial market, Jessica Warrings and Marie-Lucie Linde, WeSustain GmbH

Finally, this BAI newsletter once again features an institutional investor and I am pleased that we have been able to enlist the services of our advisory board member Stefan Hentschel from Evonik Industries AG.

I hope you have sustainable insights while reading this newsletter!

Frank Dornseifer