

ARENDT IS BY YOUR SIDE

Sustainability Risk Assessment

In 2018, the EU Commission launched its action plan on sustainable finance, one objective of which is mainstreaming sustainability into risk management. Imagine how climate-related events such as floods can translate into sudden asset repricing, how supply chains may be distorted after child labour allegations, or how real estate exposure might be affected by asset stranding risks following sudden regulatory changes.

In an era marked by a rise in natural disasters and in which fast-changing regulatory expectations are becoming the norm, sustainability risks are vectors of financial risks and increasingly threaten financial stability. Duly accounting for these risks is required not only from a regulatory standpoint, but is also essential for sound risk management.

To help IFMs enhance their sustainability risk management practices, Arendt has developed a tool that provides guided steps and techniques, facilitating a smooth integration of sustainability risks into the traditional risk management process.

Why

■ The CSSF expects IFMs to address and cover all relevant sustainability risks that could cause an actual or potential negative material impact on the value of their investments in their risk management and internal governance processes.

■ There are increasingly high expectations in terms of development of tools and techniques, and arrangements for managing sustainability risks.

■ Financial market participants are increasingly required to disclose specific information about their approaches to the integration of sustainability risks in their investment decision processes.

What

Many IFMs are facing significant difficulties in translating requirements into operational frameworks. Several steps must be followed to achieve this:

1. Identifying the material **Key Risk Indicators** (KRIs) applicable to measuring and monitoring exposure to sustainability risks.
2. Developing robust and transparent processes to collect **reliable data** over time.
3. **Integrating the new KRIs** into existing frameworks (from fund profiles and risk limits to internal reporting and ongoing monitoring)



How

By identifying **material, actionable metrics** that will help (i) to measure, track, and report on the portfolio's exposure to sustainability risks and (ii) to subsequently **monitor the likely impact of those risks** on an ongoing basis.

How can Arendt help?

Arendt has developed a **sustainability risk assessment and management tool** that will support you through the entire process, from identifying the most relevant KRIs to monitoring your fund's exposure to various sustainability risks in a comprehensive manner and on an ongoing basis:

1

Our tool analyses the composition of the fund portfolio to **identify exposure to specific regions and industry sectors**. Then, utilising a database of more than 1,500 indicators, it creates a selection of the most specific KRIs based on the allocation of the portfolio.

2

The tool generates a **list of appropriate KRIs** that are specific to the fund. This output may then be reviewed by your risk manager(s) together with the investment team(s) to identify the most relevant KRIs on which to focus. This is based on, among others, data availability from third-party providers or within the organisation, and/or data processing operations currently in place.

3

Your risk manager(s) **select(s) internal warnings and material limits** for the desired KRIs, depending, for example, on internal risk appetite and data availability.

4

Once the KRIs have been selected and the thresholds defined, the risk manager(s) can **monitor, stress test and generate reports on the various KRIs on an ongoing basis within the sustainability risk management tool**.



The tool's Dashboard presents an easy-to-read and easy-to-report overview of the portfolio's exposure to sustainability risks, based on identified material KRIs.

The tool summarises information in the Sustainability Risk Reporting section and then also divides it into several categories to reflect the various ESG pillars, allowing you to absorb the information at a glance, while still providing all the details at your fingertips.

The tool is designed to provide not only "reactive" but also "proactive" benefits. A particularly notable feature is that it can be used to simulate a new investment for a **pre-trade assessment** of its impact on the portfolio's sustainability risk profile, as well as for **ongoing monitoring of determined risk limits and investment restrictions**.

Another proactive benefit is that the tool can be used to **stress test** the portfolio, which helps risk managers assess the effects of sustainability risks in certain market conditions.

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Why arendt?

- **Local** – Arendt's roots make it well versed on Luxembourgish market and regulatory expectations.
- **Multilingual** – In keeping with its roots, Arendt is able to operate in many different languages.
- **Experienced** – Arendt has extensive knowledge of fund strategies in every asset class.
- **Knowledgeable** – Building on its expertise, Arendt works continuously to stay up to date on the latest SFDR-related developments and to provide in-depth market insights and knowledge on ESG practices.
- **Innovative** – Arendt offers a full suite of in-house digital tools that aim to help you with a wide array of burdensome tasks, from the timely management and monitoring of ESG-related requirements to the producing of heavily formatted documents and assessing ESG risks and performance, etc.