

# Sustainability approaches in ZKB Fund Portfolio

Stewardship	Controversies	ESG	Climate	Transparency
				
<b>Voting / Engagement</b>	<b>Avoidance of controversy</b>	<b>ESG integration</b>	<b>CO<sub>2</sub>e reduction</b>	<b>Sustainability report</b>
We shoulder responsibility through <b>investment stewardship</b> by exercising <b>voting rights</b> and maintaining an <b>active dialogue with companies</b> . We publish and are transparent about our voting procedures.	Exclusions to <b>avoid controversies</b> are applied to companies and countries based on clearly defined criteria.	Integration of ESG criteria for <b>more controlled risks and more informed investment decisions</b> .	Alignment with the Paris Agreement by means of a <b>reduction in CO<sub>2</sub>e emissions of at least 4% per year</b> (with a few exceptions).	Sustainability requires transparency. We prepare a <b>regular report for our customers</b> CO <sub>2</sub> e intensity and on the sustainability risks and opportunities of their investments.

Sustainability characteristics	Sustainability approaches <sup>1</sup>					Transparency
	Stewardship	Controversies	ESG	Climate	SDGs	
<b>Sustainability characteristics</b>						<b>Sustainability report</b>
<b>Responsible active</b>	✓	✓	✓	✓		✓

<sup>1</sup> The sustainability approaches apply to all or a significant portion of the assets. Individual criteria and approaches may be implemented differently for the various product lines and asset classes. Details on the corresponding Swisscanto funds and the approaches applied can be found in the fund prospectuses under Fund Info | Swisscanto. Individual criteria and approaches may not or only partially be applied to asset management mandates.

# Paris Agreement in our active investment funds with the Responsible characteristics

## Climate: CO<sub>2</sub>e reduction

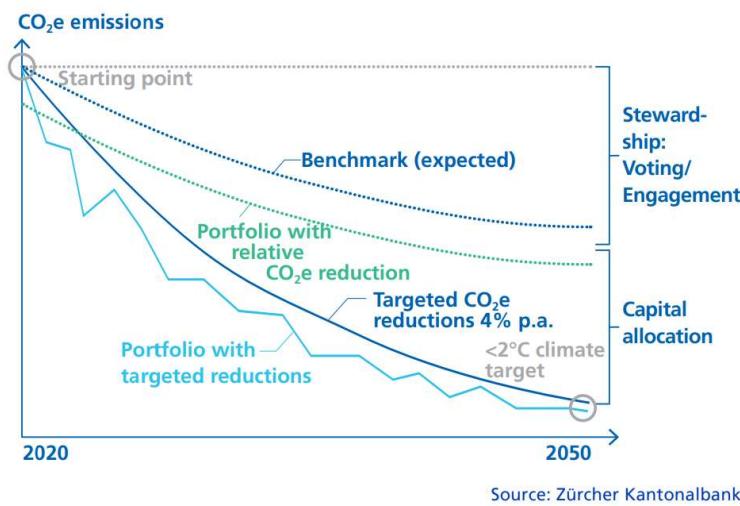
In order to limit global warming to below 2 degrees, global CO<sub>2</sub>e emissions<sup>2</sup> must fall by at least 4% each year from 1 January 2020. This is confirmed by scientific data from the Intergovernmental Panel on Climate Change (IPCC)<sup>3</sup>.

Against a background of structural change, we want to protect our investors by optimally managing assets entrusted to us with regard to newly appearing risks and opportunities. In particular, our climate strategy is therefore consistently focused on dialogue and capital allocation:

As shareholder and credit provider, we engage via active **dialogue** with companies, challenging them to formulate and implement effective goals to reduce CO<sub>2</sub>e emissions.

Via **capital allocation**, we aim to ensure that all of our active Responsible funds in the traditional asset classes have a decreasing carbon intensity that is based on the Paris Agreement as standard. In addition, we reduce CO<sub>2</sub>e-intensive companies and states that have no strategy for reducing their CO<sub>2</sub>e emissions in our allocation, in favour of more CO<sub>2</sub>e-efficient companies and states and those that pursue CO<sub>2</sub>e reduction goals.

## With stewardship and capital allocation, we contribute to the implementation of the climate goal.



## Climate goal

We are aligning our investment activities with a <2 degree target based on the Paris Agreement and are working towards a CO<sub>2</sub>e reduction target of at least 4% per year (with few exceptions). We are guided by the available benchmarks for CO<sub>2</sub>e intensity, which correspond to CO<sub>2</sub>e emissions per unit of revenue or value creation. We have been transparently reporting CO<sub>2</sub>e intensity of our investment funds since 2021.

## Implementation of the CO<sub>2</sub>e reduction goal

The target for each active portfolio that follows the absolute reduction path of our climate target is based on the CO<sub>2</sub>e intensity of the benchmark index as at the end of 2019. From this baseline value, the maximum intensity falls by two factors: firstly, by the goal to cut CO<sub>2</sub>e emissions by at least 4% per year and secondly, the value is corrected by the level of global economic growth. For companies, CO<sub>2</sub>e intensity is measured as CO<sub>2</sub>e emissions relative to revenue in USD. If the economy grows, the intensity must also fall by this nominal growth so that absolute emissions are still cut by at least 4% per year. Maximum CO<sub>2</sub>e intensity is thus as follows: Baseline value  $\times (1 - 4\%)^{\text{year}} / (\text{cumulative nominal growth})$ .

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<sup>2</sup>CO<sub>2</sub> equivalents (CO<sub>2</sub>e) are a unit of measurement to standardise the climate impact of the greenhouse gases carbon dioxide (CO<sub>2</sub>e), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O) and fluorinated greenhouse gases (CFCs). All of these gases remain in the atmosphere for different lengths of time and do not contribute equally to the greenhouse effect.

<sup>3</sup>Source: IPCC

# More controlled risks, more well-founded investment decisions

## Controversies: Exclusion of investments with ESG-critical business models

In our sustainable, active solutions with Responsible characteristics, we use exclusion criteria for companies that do not have a promising business model or have unacceptable reputational risks on the basis of our sustainability considerations. In addition to the exclusions of banned weapons and behaviour-based exclusions, these are companies currently associated with the following:

- Manufacture of weapons and ammunition
- Manufacturer of war technology (> 5% of turnover)
- UN Global Compact violations<sup>4</sup>
- Exploitative child labour
- Production of pornography
- Extraction of coal (> 5% of turnover; excluding metal production)<sup>5</sup>
- Coal reserves (excluding metal production)<sup>5</sup>

In addition to the exclusion criteria for business activities, we also maintain an exclusion list for states. This is how government bonds issued by states recommended for exclusion by SVVK-ASIR<sup>6</sup> can also be excluded. The exclusions can be adjusted if necessary.

## ESG integration: Systematic integration of ESG criteria

ESG criteria form an integral part of our active investment process. Systematic integration should allow us to recognise the risks and the opportunities early, based on ESG trends, and enable us to turn them into added value for our customers. ESG criteria supplement the pure financial analysis, and we are convinced that they lead to more well-founded investment decisions.

- For bonds, this can result in better protection against loan defaults, as possible risks can be uncovered more effectively through detailed ESG analysis.
- For equities, the systematic analysis of ESG trends can be used to identify those companies that we believe benefit from the developments and which could therefore be able influence our performance.

That is why understanding ESG data and integrating a robust information platform into the portfolio management system are at the heart of our strategic considerations.

<sup>4</sup>United Nations standard on human rights, labour rights, environmental standards and anti-corruption.

<sup>5</sup>Exclusion criterion can be overwritten for green and sustainability bonds.

<sup>6</sup>Swiss Association for Responsible Investments, further information: svvk-asir.ch

# Responsibility across the board

## **Stewardship: Voting and Engagement**

We actively ask companies to formulate ambitious CO2 e reduction targets and to consistently implement them. In addition, we appeal to companies to join the Science-Based Targets Initiative<sup>7</sup>. We are in continuous dialogue with corporate management and engage through the collaboration platform and the United Nations Principles for Responsible Investment (UN PRI) as well as various investor initiatives. Votes are actively and responsibly casted according to a sustainable oriented mindset and strategy. The voting policy is based, among others, on Swiss and international corporate governance rules and the UN PRI. The voting behaviour is transparently published on [swisscanto.com/voting](http://swisscanto.com/voting).

## **Engagement on three pillars**

### **– Direct dialogue with Swiss issuers:**

Our focus is to create visibility among companies as an active and sustainable asset manager by promoting best-practice ESG in the interest of our investors by leveraging on our home base expertise.

### **– Collaborative engagements:**

We support ESG initiatives of the UN PRI platform that are aligned with the environmental and/or social aspects of the 17 UN Sustainable Development Goals and affect entire industries.

### **– Global and thematic engagements:**

We prioritise compliance with the UN Global Compact principles and topics such as climate change, biodiversity, circular economy and healthy longevity. We have commissioned Sustainalytics to optimise the use of existing resources and communicate our central sustainability goals worldwide.

## **Transparency**

Our customers have been receiving detailed reporting on their assets in our sustainable funds in the traditional asset classes with regard to various sustainability indicators and dimensions, including:

- ESG ratings
- CO2 e intensity
- Controversies
- Voting and engagement activities.

<sup>7</sup>Further information: [sciencebasedtargets.org](http://sciencebasedtargets.org).

# Disclosure of sustainability goal, policy and proportion

## Sustainability goal

The fund pursues the goal of reducing the CO<sub>2</sub>e intensity of the portfolio over time through the sustainability approach of climate alignment.

This sustainability goal is defined according to the following reference framework:

- Paris Climate Agreement of December 12, 2015

The following indicator is used for measurement and monitoring:

- CO<sub>2</sub>e intensity

This means that the fund is aligned with a sustainability goal in addition to its financial objectives.

## Sustainability policy

For this fund with a Responsible characteristic, the asset manager applies a sustainability policy that includes the following sustainability approaches:

- Exclusions (Avoidance of controversy)
- ESG integration
- Climate alignment (CO<sub>2</sub>e reduction)

At the institutional level (fund management or asset manager), the sustainability approach of stewardship (voting & engagement) is also applied.

## Proportion

The sustainability approaches apply to the entire asset or a significant portion of the asset. Detailed information on this can be found in the prospectus, fund contract, or investment guidelines.

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