

# Sustainability- related disclosures on website

For financial products as referred to in Article 9 of Regulation (EU) 2019/2088

**Swisscanto (LU) Portfolio Fund Sustainable Balance (CHF)**

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## Summary

<b>1. No significant harm to the sustainable investment objective</b>	
With this sub-fund, the adverse impacts on sustainability factors (principal adverse impacts) are also considered. The mandatory indicators in Annex I to Regulation (EU) 2019/2088 are used for this purpose. In addition, any breaches of the following standards are considered when analysing investments for inclusion as sustainable investments: the UN Global Compact (UNGC), UN Guiding Principles on Business and Human Rights (UNGP), and the International Labour Organization (ILO Conventions).	
<b>2. Sustainable investment objective of the financial product</b>	
The primary sustainable investment objective of this financial product is the reduction of CO <sub>2</sub> emissions (quota of 80%) within the meaning of Article 9(3) of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector. The Asset Management's investment activity for the portfolio is therefore focused on a continuous <u>reduction in the CO<sub>2</sub>e intensity of investments</u> in accordance with the 1.5 degree target of the Paris Climate Agreement. <u>Sustainable investments in accordance with Article 9(2) SFDR</u> : In addition to the reduction of CO <sub>2</sub> e intensity, the Asset Management focuses in the case of this sub-fund on the securities of companies and the specific-purpose bonds of companies, supranational entities and governments (e.g. social, green or sustainable bonds), which, based on its assessment, make a contribution to sustainable objectives (sustainable investment within the meaning of Article 2(17) SFDR) relating to one or more of the United Nations Sustainable Development Goals (hereinafter the "SDGs").	
<b>3. Investment strategy</b>	
The fund invests in equities, bonds and money market instruments. Between 35% and 75% of the fund's assets can be invested in variable and fixed-interest securities and money market instruments as well as in liquidity. The equity allocation is between 25% and 65%. The investment return should be generated in CHF. Good governance is considered when analysing investments by verifying compliance with the following global standards: UNGC, UNGP and ILO.	
<b>4. Proportion of investments</b>	
The Asset Management pursues the aforementioned sustainable investment objectives: (i) reduction of CO <sub>2</sub> e intensity in accordance with Article 9(3) SFDR; and (ii) sustainable investment in accordance with Article 9(2) SFDR. The reduction of CO <sub>2</sub> e intensity aligned with the 1.5-degree target of the Paris Climate Agreement is applied to 80% of the sub-fund's portfolio (excluding cash and derivatives). The Asset Management invests at least 20% of the net assets of the sub-fund in sustainable investments in accordance with Article 9(2) SFDR.	
<b>5. Monitoring of sustainable investment objective</b>	
The Asset Management uses a range of data points to measure the attainment of its sustainable investment objectives. It uses data from independent, third-party providers and proprietary qualitative and quantitative research in this process. Sustainability indicators integrated with the investment process are then used to assess the attainment of the sustainable investment objectives:	
<input checked="" type="checkbox"/> Reduction of CO <sub>2</sub> e intensity	<input checked="" type="checkbox"/> Extensive exclusion criteria
<input checked="" type="checkbox"/> Sustainable investments in accordance with Article 9(2) SFDR	
<b>6. Methodologies</b>	
The following methodologies are used for the sub-fund, and measure how the sustainable investment objectives are met; these are based on data from third-party providers as well as in-house analysis:	
<input checked="" type="checkbox"/> Reduction of CO <sub>2</sub> e intensity	The Asset Management's investment activity is focused on a continuous reduction in the CO <sub>2</sub> e intensity of investments in accordance with the 1.5 degree target of the Paris Climate Agreement.
<input checked="" type="checkbox"/> Extensive exclusion criteria	The Asset Management uses extensive exclusion criteria to identify an increased risk of harm to environmental and social characteristics. These exclusion criteria are also used to establish an investment universe focused more specifically on investments that are aligned with these values.
<input checked="" type="checkbox"/> Sustainable investments in	The Asset Management invests in securities which, in its opinion, make a contribution to one or more sustainable objectives. The sustainable solutions of companies and the specific-purpose bonds

accordance with Article 9(2) SFDR	of companies, supranational entities and governments (e.g. social, green or sustainable bonds) are examined with regard to their contribution to one or more of the UN Sustainable Development Goals (“SDGs”) using the data of independent third-party providers.
<input checked="" type="checkbox"/> Investments in SDG leaders	When constructing the investment universe, the Asset Management considers the securities of issuers whose products and services or specific-purpose bonds make a significant contribution to the SDGs (“SDG leaders”).
<input checked="" type="checkbox"/> Investments in ESG leaders	For the purposes of diversification, the Asset Management also includes securities in the investment universe that are assessed as above-average on a best-in-class basis relating to a sustainable economic approach using environmental, social and governance (ESG) criteria. These securities are referred to as ESG leaders.
<input checked="" type="checkbox"/> ESG integration	The Asset Management integrates environmental (E), social (S) and governance (G) factors for companies and governments into the investment process (ESG integration) in order to identify opportunities and risks prior to any investment decision.
<b>7. Data sources and processing</b>	
The Asset Management uses data from the following providers: MSCI-ESG, EDGAR, ISS ESG, Bloomberg, World Bank, IMF, SDG Transformation Center. It combines data from independent, third-party providers with proprietary qualitative and quantitative research in this process.	
<b>8. Limitations to methodologies and data</b>	
Limitations to methodologies and data, e.g. in relation to the use of estimate models or fundamental analysis, managing statistical outliers or the definition of system limits, exist in the following areas: in relation to the reduction of CO <sub>2</sub> e intensity, definition and application of exclusion criteria, evaluation of the sustainable investments pursuant to Article 9(2) SFDR and implementation of ESG integration. The Asset Management does not currently incorporate any Scope 3 data. We review the data offering in this area on a regular basis, while the Asset Management incorporates Scope 3 data into the climate strategy (reduction of CO <sub>2</sub> e intensity) as soon as quality meets the minimum standards.	
<b>9. Due diligence</b>	
Various procedures are used to ensure due diligence in relation to existing and potential investments, e.g. control procedures in asset management, risk management processes and regular reviews of external data providers.	
<b>10. Engagement policies</b>	
The engagement policies of the sub-fund cover the following areas:	
<input checked="" type="checkbox"/> Engagement	<input checked="" type="checkbox"/> Exercise of voting rights
The Asset Management has commissioned an external engagement services provider, as well as an independent shareholder adviser, to implement the engagement policies of the sub-fund.	
<b>11. Attainment of the sustainable investment objective</b>	
No designated reference benchmark is used.	

## 1. No significant harm to the sustainable investment objective

The indicators for adverse impacts on sustainability factors are taken into account as follows for sustainable investments: Issuers with a negative net contribution to the United Nation's Sustainable Development Goals (hereinafter the "SDGs") are removed from the investment universe of the financial product. The sub-fund also considers adverse impacts on sustainability factors (principal adverse impacts, hereinafter "PAIs"). The mandatory indicators in Annex I of the commission delegated regulation (EU) 2022/1288 supplementing Regulation (EU) 2019/2088 (hereafter "Annex I to Regulation (EU) 2019/2088") are used for this purpose. Issuers who breach the following PAIs, 7 (biodiversity), 10 (the UN Global Compact (UNGC)/OECD Guidelines for Multinational Enterprises) or 14 (controversial weapons involvement), receive a PAI score of zero. A PAI score is calculated from the remaining PAI indicators. Instruments from issuers with a score < 5 are excluded from the investment universe and the portfolio by an appropriate deadline.

Any breaches of the following standards are considered when analysing investments for inclusion as sustainable investments: The UN Guiding Principles on Business and Human Rights (UNGP) and the International Labour Organization (ILO) Conventions. Serious breaches of these standards result in the exclusion of any sustainable investments of the issuer.

## 2. Sustainable investment objective of the financial product

The primary sustainable investment objective of this financial product is the reduction of CO<sub>2</sub>e emissions (quota of 80%) within the meaning of Article 9(3) of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector.

### 2.1 Reduction of CO<sub>2</sub>e intensity

The Asset Management's investment activity for the portfolio is focused on a continuous reduction in the CO<sub>2</sub>e intensity of investments in accordance with the Paris Climate Agreement. The Asset Management does not rely on an external reference benchmark aligned with the targets of the Paris Climate Agreement to achieve this objective. Instead, the Asset Management ensures, as part of the direct investment process, that the methodology requirements for EU Paris-aligned benchmarks under Delegated Regulation (EU) 2020/1818 are met, rather than the Paris climate target of 1.5 degrees, whereby: (i) greenhouse gas (GHG) emissions are reduced by at least 7.5% plus economic growth per annum; (ii) the weighting of green versus brown investments is at least four times that of the benchmark (as described in the interim report on climate benchmarks and ESG disclosures of the EU Technical Expert Group (TEG) on Sustainable Finance); and (iii) the exclusions of Delegated Regulation 2020/1818 are complied with. In accordance with the active investment strategy without use of an external reference benchmark, the requirements of Delegated Regulation 2020/1818 in relation to exposure to climate-critical sectors and GHG intensity are not implemented in relative terms versus a benchmark, but by means of absolute objectives to reduce the CO<sub>2</sub>e intensity of investments (pursuit of a decarbonisation trajectory).

In calculating the decarbonisation trajectory, we do not use Scope 3 GHG emissions due to insufficient data quality and incomplete data coverage, whilst awaiting better data coverage.

### 2.2 Sustainable investments in accordance with Article 9(2) SFDR

In addition to the reduction of CO<sub>2</sub>e intensity, the Asset Management focuses on the securities of companies and the specific-purpose bonds of companies, supranational entities and governments (e.g. social, green or sustainable bonds), which, based on its assessment, make a contribution to sustainable objectives relating to one or more of the SDGs (Article 2(17) SFDR).

## 3. Investment strategy

The fund invests in equities, bonds and money market instruments. Between 35% and 75% of the fund's assets can be invested in variable and fixed-interest securities and money market instruments as well as in liquidity. The equity allocation is between 25% and 65%. The investment return should be generated in CHF.

Good governance is considered when analysing investments by verifying compliance with the following global standards: UNGC, UNGP and ILO. Any breach of these standards results in the exclusion of the issuer from the financial product's universe of investee companies.

## 4. Proportion of investments

The Asset Management pursues the aforementioned sustainable investment objectives: (i) reduction of CO<sub>2</sub>e intensity in accordance with Article 9(3) SFDR; and (ii) sustainable investment in accordance with Article 9(2) SFDR. The reduction of CO<sub>2</sub>e intensity aligned with the 1.5-degree target of the Paris Climate Agreement is applied to 80% of the sub-fund's portfolio (excluding cash and derivatives).

The Asset Management invests at least 20% of the net assets of the sub-fund in sustainable investments in accordance with Article 9(2) SFDR.

## 5. Monitoring of sustainable investment objective

The Asset Management uses a range of data points to measure the attainment of its sustainable investment objectives. It uses data from independent, third-party providers and proprietary qualitative and quantitative research in this process.

Sustainability indicators integrated with the investment process are then used to assess the attainment of the sustainable investment objectives:

### 5.1 Reduction of CO<sub>2</sub>e intensity

CO<sub>2</sub>e intensity for companies is defined as CO<sub>2</sub>e emissions in relation to turnover (tonnes of CO<sub>2</sub>e per USD million of turnover), and for government bonds as CO<sub>2</sub>e emissions in relation to economic value added (tonnes of CO<sub>2</sub>e per USD million of gross domestic product). Greenhouse gases with a global warming effect are included in accordance with the international Greenhouse Gas Protocol (GHG Protocol) (measured in CO<sub>2</sub> equivalents – CO<sub>2</sub>e). Data of independent third parties is used to calculate CO<sub>2</sub>e intensity. The Asset Management uses this data to calculate the relevant CO<sub>2</sub>e intensity, taking account of data availability and quality, any methodology discrepancies and special cases.

The Asset Management defines a guideline for the average CO<sub>2</sub>e intensity of the sub-fund's assets on an annual basis. The Asset Management defines the respective guideline each year on the basis of the target value for the global reduction of CO<sub>2</sub>e emissions (at least 7.5% annually), which is based on the Paris Climate Agreement of 12 December 2015. The guideline for the average CO<sub>2</sub>e intensity of the sub-fund's assets is calculated by discounting the CO<sub>2</sub>e intensity of the assets included in the reference benchmark as at the end of 2019 annually by the target value (7.5%) and global economic growth. The Asset Management uses a rolling arithmetic average of nominal economic growth over the last three years to calculate economic growth.

### 5.2 Exclusion criteria

The Asset Management uses exclusion criteria to identify an increased risk of harm to environmental and social values, or business activities that are considered high risk. These exclusion criteria are also used to establish an investment universe focused more specifically on investments that are aligned with these values.

The following activities correspond to the exclusions described in Delegated Regulation 2020/1818. The Asset Management has also determined other additional activities which result in the exclusion of companies from the investment universe:

- The production of weapons and munitions, including the following banned weapons:
  - Cluster bombs and munitions
  - Anti-personnel and landmines
  - Biological and chemical weapons
  - Nuclear weapons systems \*
  - Nuclear weapons material \*

- Enriched uranium \*
- Blinding laser weapons
- Incendiary weapons
- Production of military hardware
- Behaviour-based exclusions including those included in the list of the SVVK-ASIR (Swiss association for the promotion of responsible capital investment)
- UN Global Compact violations
- Exploitative child labour
- Production of pornography
- Extraction of coal (ex metal production) \*\*
- Operation of nuclear facilities \*\*
- Uranium extraction
- Manufacture of nuclear reactors \*\*
- Genetic engineering: human medicine
- Production of tobacco products and smokers' accessories
- Production of alcohol (> 5% revenue)
- Gambling (> 5% of revenue)
- Intensive livestock farming
- Coal reserves \*\*
- Operation of fossil fuel power plants (> 5% revenue) \*\*
- Exploitation of natural gas \*\*
- Exploitation of oil \*\*
- Conventional car manufacturers without a comprehensive transition strategy for using alternative, more climate-friendly drive systems \*\*
- Aircraft production \*\*
- Airlines \*\*
- Cruise ship operators \*\*
- Genetically modified organisms (GMO) in agriculture \*\*
- Non-sustainable fishing and fish farming \*\*
- Non-sustainable forestry \*\*
- Non certified palm oil (<50% RSPO)
  
- Exclusions for government issuers are performed in accordance with SVVK-ASIR. At the current time, the following countries are excluded:
  - Afghanistan
  - Belarus
  - Iran
  - Libya
  - Myanmar
  - North Korea
  - Russia
  - Sudan
  - South Sudan
  - Syria
  - Venezuela
  - Zimbabwe

Further (additional) countries with:



- Low levels of democracy and freedom (classified as “not free” in the Freedom in the World report published annually by Freedom House) \*\*\*
- Use of the death penalty \*\*\*
- Particularly high military budget (> 4% of gross domestic product, GDP) \*\*\*
- Expansion of nuclear energy (total share >50%) \*\*\*
- Corruption (corruption index < 35 according to the Corruption Perceptions Index (CPI) of Transparency International) \*\*\*
- Nuclear Non-Proliferation Treaty not ratified \*\*\*
- Paris Climate Agreement on climate change not ratified \*\*\*
- Convention on Biological Diversity not ratified (CBD) \*\*\*

The Asset Management reserves the right to exclude additional countries for reasons of business policy.

\* Only in the case of proliferation contrary to the Non-Proliferation Treaty (NPT).

\*\* Green bonds and sustainable bonds do not require exclusion providing the limits of Delegated Regulation (EU) 2020/1818 apply directly to all assets at project level. For green and sustainable bonds, issuers must use the proceeds raised through the issue of the green or sustainable bond for specific purposes. If this is the case, green bonds are used to raise capital for specific activities to mitigate or prevent adverse impacts on the environment. Sustainable bonds are also used to raise capital for specific activities to mitigate or prevent adverse impacts on the environment and on society. Investments in green bonds or sustainable bonds thus make a contribution to a positive impact in relation to the relevant exclusion criteria.

\*\*\* Green bonds and sustainable bonds do not require exclusion. For green, social and sustainable bonds, issuers must use the proceeds raised through the issue of the green or sustainable bond for specific purposes. If this is the case, green bonds are used to raise capital for specific activities to mitigate or prevent adverse impacts on the environment. Social bonds are used to raise capital for specific activities to reduce or prevent negative impacts on society. Sustainable bonds are also used to raise capital for specific activities to mitigate or prevent adverse impacts on the environment and on society.

### 5.3 Sustainable investments in accordance with Article 9(2) SFDR

The Asset Management focuses on the securities of companies and the specific-purpose bonds of companies, supranational entities and governments (e.g. social, green or sustainable bonds), which, based on its assessment, make a contribution to sustainable objectives relating to one or more of the SDGs. The products and services of companies (hereinafter “sustainable solutions”) and specific-purpose bonds are assessed with regards to their contribution to the SDGs using the data of independent third-party providers. The turnover of companies is used to examine the proportion of business that has a positive or negative impact on one or more of the objectives. For the specific-purpose bonds of companies, supranational entities and governments, we assess whether the proceeds have a positive impact on one or more of the SDGs.

If a sub-fund no longer complies with the characteristics described in point 1, the Asset Management adjusts the portfolio by changing the weighting of the various securities or by replacing holdings with securities with lower CO<sub>2e</sub> intensity, in accordance with the annual targets. The Asset Management ensures that the corresponding reference value is complied with on average over the year.

### 5.4 Continuous assessment

Investments that no longer comply with the characteristics described in points 2 – 3 are removed from the portfolio by an appropriate deadline.

The sub-fund does not use a reference benchmark to meet the described sustainable investment objectives.

## 6. Methodologies

### 6.1 Reduction of CO<sub>2</sub>e intensity

The Asset Management's investment activity targets a continuous reduction in the CO<sub>2</sub>e intensity of investments as follows: The Asset Management defines a guideline for the average CO<sub>2</sub>e intensity of the sub-fund's assets on an annual basis. The Asset Management defines the respective guideline each year on the basis of the target value for the global reduction of CO<sub>2</sub>e emissions (at least 7.5% annually), which is based on the Paris Climate Agreement of 12 December 2015. The guideline for the average CO<sub>2</sub>e intensity of the sub-fund's assets is calculated by discounting the CO<sub>2</sub>e intensity of the assets included in the reference benchmark as at the end of 2019 annually by the target value (7.5%) and global economic growth. The Asset Management uses a rolling arithmetic average of nominal economic growth over the last three years to calculate economic growth.

### 6.2 Exclusion criteria

The consideration of sustainability aspects includes the definition of exclusion criteria for business activities that the Asset Management judges to be high-risk (see above). These include the exclusions described in Delegated Regulation 2020/1818. The exclusion criteria are verified at least once a year for any changes or new information and adjusted accordingly.

### 6.3 Sustainable investments in accordance with Article 9(2) SFDR

The Asset Management invests in securities which, in its opinion, make a contribution to one or more sustainable objectives. The sustainable solutions of companies and the specific-purpose bonds of companies, supranational entities and governments (e.g. social, green or sustainable bonds) are assessed with regards to their contribution to the SDGs using the data of independent third-party providers. For this purpose, a proprietary model examines around 800 product and service solutions for their contribution to one or more of the SDG targets. This results in a matrix with approximately 85, where 70 are positive and 15 are negative solutions for the 169 SDG targets or the 17 SDGs. For this assessment, we verify what proportion of a company's turnover has a positive or negative impact on one or more of the SDGs. The contribution made to the SDGs is classified in one of five categories: strongly positive, positive, neutral, negative or strongly negative. Turnover is also classified according to its contribution to environmental or social objectives. Only turnover classified as making a positive or strongly positive contribution to the SDGs is categorised as sustainable investment. For example, in the automotive sector, electric vehicles are considered to be a more climate-friendly transportation option (strongly positive) than hybrid vehicles (positive). The specific-purpose bonds of companies, supranational entities and governments qualify as sustainable investments if the proceeds have a positive impact on one or more of the SDGs. The turnover of issuers causing significant harm to environmental or social sustainable investment objectives cannot be included in the proportion of sustainable investment.

### 6.4 Investments in SDG leaders

When constructing the investment universe, the Asset Management considers the securities of issuers whose products and services or specific-purpose bonds make a significant contribution to the SDGs ("SDG leaders"). A significant contribution means at least 66.67% of turnover from a sustainable solution with a positive contribution, or 33.33% of turnover from a sustainable solution with a strongly positive contribution. In exceptional cases, an issuer may qualify as an SDG leader if it produces a key component of a sustainable solution, even if the 66.67% or 33.33% threshold is not met. Specific-purpose bonds also qualify as SDG leaders. As a result of the turnover requirements for inclusion in the investment universe, SDG leaders generally account for a high proportion of sustainable investments in accordance with Article 9(2).

### 6.5 Investments in ESG leaders

For the purposes of diversification, the Asset Management also includes securities in the investment universe that are assessed as above-average on a best-in-class basis relating to a sustainable economic approach using environmental, social and governance (ESG) criteria. These securities are referred to as ESG leaders. Proprietary ESG scores calculated by the Asset

Management for companies and governments are used as the basis for identifying ESG leaders. These are based on the data of independent third-party providers and calculated using proprietary criteria, algorithms and weightings. The Asset Management considers the relevance of ESG criteria with regards to sustainability risks and opportunities. The ESG scores calculated cover a scale of 0 to 100, whereby 0 is the lowest value, 50 the average, and 100 the best.

ESG leaders are companies with an ESG score  $\geq 50$  and governments with an ESG score  $\geq 66.67$ . In exceptional cases, ESG leaders may be defined on the basis of fundamental research even if their ESG score is under 50.

If an ESG leader generates turnover that qualifies as sustainable investment in accordance with Article 9(2) SFDR, this is also included in sustainable investments in accordance with Article 9(2) SFDR. However, as there is no minimum turnover requirement for ESG leaders, this typically represents a significantly lower proportion than for SDG leaders.

## 6.6 Investments in Theme Adopters

Companies that have optimized their value chain with regard to the circular economy and digital economy are also counted as sustainable investments. Such companies are included as so-called Circular Economy or Digital Economy Adopters based on a fundamental analysis. Accordingly, from criteria such as Recycling rates, waste reduction, takeback initiatives, eco-design policies, disclosure of recycling content in products/packaging, a Circular Economy Adopters Score is determined. Companies with an above-average score qualify as Circular Economy Adopters. From criteria such as the area of operations and policy, the level of investment to promote the company's digital transformation of the company, the integration of a digital strategy into the company's entire business model, the degree of process automation in customer and employee activities, a Digital Economy Adopters Score is determined. Companies with an above-average score qualify as Digital Economy Adopters.

## 6.7 ESG integration

As part of the investment process, the Asset Management follows an approach which integrates environmental, social and governance (ESG) aspects. This means that environmental and/or social characteristics are automatically considered in addition to traditional financial analysis when selecting investments, in order to guarantee a positive contribution (opportunities) to ESG criteria and where applicable investment returns. There are therefore limited investments in ESG laggards. ESG laggards are companies within a specific sector or industry branch with particularly poor ESG scores versus their peers based on proprietary ESG scores.

The weighting of all positions in ESG laggards in the sub-fund is the same or lower than the weighting of all positions in ESG laggards in the sub-fund's benchmark.

## 7. Data sources and processing

The Asset Management uses data from the following providers:

- **MSCI ESG:** Qualitative and quantitative environmental, social and governance data for companies and governments. Used for calculating the ESG and SDG scores and controversies for companies.  
[www.msci.com/esg-integration](http://www.msci.com/esg-integration)
- **Bloomberg:** Quantitative data for compliance with the ICMA-criteria and second party opinion provider. Used for green-, social- & sustainability scores.  
[www.bloomberg.com](http://www.bloomberg.com)
- **The Emissions Database for Global Atmospheric Research (EDGAR):** CO<sub>2</sub>e data for governments. Used for CO<sub>2</sub>e reduction for governments. EDGAR is an EU Commission project which provides global past and present-day anthropogenic emissions of greenhouse gases and air pollutants by country.  
[Emission Database for Global Atmospheric Research \(EDGAR\) — European Environment Agency \(europa.eu\)](http://Emission Database for Global Atmospheric Research (EDGAR) — European Environment Agency (europa.eu))
- **Worldbank:** Sustainability indicators used for the calculation of sovereign-ratings.  
[www.worldbank.org](http://www.worldbank.org)
- **ISS ESG:** CO<sub>2</sub>e and controversy data for companies. Used for CO<sub>2</sub>e reduction for companies.

[Climate Solutions – ISS \(issgovernance.com\)](https://issgovernance.com)

- **IMF:** Global GDP growth, used for CO<sub>2</sub>e reduction.  
[www.imf.org](http://www.imf.org)
- **SDG Transformation Center:** Used for SDG scores for sovereign  
[sdgtransformationcenter.org](http://sdgtransformationcenter.org)

The data obtained by the aforementioned external data providers is fed into a proprietary portfolio management system. Before the data is released for production, systematic quality controls and plausibility checks are carried out. Estimates are made for company greenhouse gas data. Scope 1 & 2 data is around 90% data reported by companies to one of the external data providers, around 10% is estimated (basis: MSCI All Country World). Scope 3 data is currently not taken into account. In a further step, the raw data is aggregated according to specific methods, models and algorithms. More detailed information on these processes is provided in Chapter 8.

## 8. Limitations to methodology and data

There are limitations to methodologies and data in the following areas:

### 8.1 Reduction of CO<sub>2</sub>e intensity

The basis for the database are the greenhouse gases regulated in the Kyoto Protocol. Scope 1 emissions come from emission sources within the observed system boundaries. Scope 2 emissions come from the generation of energy sourced from outside. Scope 3 emissions are any other emissions that are generated by the company's activity but not directly controlled.

As regards emissions data for companies, until now far too few Scope 3 emissions have been reported through a recognised standard (e.g. Carbon Disclosure Project). Most of the available data sets therefore stem from complex estimate models, which do not yet provide the required minimum quality for use in the climate strategy. As a result, only Scopes 1 and 2 are currently taken into account for companies. However, the Asset Management reviews the data offering in this area on a regular basis and will incorporate Scope 3 data into the climate strategy as soon as the quality meets the minimum standards. Nonetheless, Scope 3 considerations are already integrated into the investment process today in the form of fundamental analyses. This does not jeopardise the achievement of the sustainable investment objectives. If data were used that did not meet the minimum standard, there would be a risk that they would have to be corrected regularly, which would jeopardise the continuous achievement of a sustainable investment objective.

Data providers also use estimate models for Scope 1 and Scope 2 emissions data for companies. These estimate models lead to statistical outliers, which are dealt with in an internal quality control. The maximum CO<sub>2</sub>e intensity for companies whose data was estimated may not exceed the maximum reported value within a comparison group. Values above this maximum value will be overwritten with the maximum reported CO<sub>2</sub>e intensity from the comparison group. Furthermore, data may be missing for a company. In such cases, the Asset Management uses the median of the comparison group's CO<sub>2</sub>e intensity. The use of data from a peer group means that, despite the use of estimation models, the availability and quality of the data is high enough not to compromise the achievement of the sustainable investment objective.

### 8.2 Exclusion criteria

The Asset Management uses data from independent third-party providers for the exclusion criteria. This data is used to calculate a company's turnover from controversial business activities so that it can be compared with the total turnover. The data is determined using a combination of sector classifications, business descriptions and keyword searches in selected company documents. If this process reveals that the company has no involvement in controversial business activities, the company is deemed investible. If the company does not provide any information on this turnover area and the latter cannot be ascertained from other publicly available sources, the data provider submits a turnover estimate. These turnover estimates may diverge from reality. As the data provider relies on comparative figures for the relevant sector and other available information from the company, it is assumed that such estimates do not impair the achievement of the long-term investment objectives.

### 8.3 Sustainable investments in accordance with Article 9(2) SFDR

Data on sustainable investments is collected on the basis of MSCI-ESG business segment turnover data. The data provider does not provide business segment turnover data for all issuers. The granularity of the turnover data may not be sufficient to link it with one or more SDGs. Missing business segment turnover data can be added later on the basis of publicly available data. If no relevant business segment turnover data is available, the issuer's turnover is not factored into the sustainable investments, so that it does not lead to any impairment of the sustainable investment objectives.

### 8.4 ESG integration

Most ESG rating agencies collect data from public channels such as web pages, annual reports, etc. Primarily data which is publicly available and in English is collected. Whereas large companies employ teams that focus exclusively on ESG reporting, this is generally impossible for companies with smaller market capitalisations. As a result, the availability of data in different segments is not comparable, resulting in much lower ESG ratings in the field of Small Cap Emerging Markets

than in the field of Large Cap Developed Markets. When determining ESG ratings and ESG laggards, this problem should be counteracted by comparing companies with a representative comparison group. A relative assessment within sectors, capitalisation groups and regional groups should ensure that companies are not given preferential treatment or disadvantaged due to static characteristics which are not relevant to ESG. This approach is intended to ensure that the sustainable investment objectives are not jeopardised.

## **9. Due diligence**

The following procedures are used to ensure due diligence in relation to existing and potential investments:

### **9.1 Development of the sustainability policy**

The ESG strategy team is responsible for developing the sustainability policy. Its responsibilities also include determining the operational implementation so that an investment can be classified as a sustainable investment within the proprietary portfolio management system.

This determination is based on the applicable legal regulations so that the legal framework is set for the existing and potential investments. This framework is checked regularly to ensure that it is up to date by the legal department and the compliance function.

### **9.2 Control process for asset management**

This control procedure includes, inter alia, scenario analyses, daily pre- and post-trade transaction checks and monitoring compliance of investment guidelines with the portfolio management system, as well as daily performance checks, including checking individual positions for relative outliers. All portfolios are checked on a regular basis. This process involves identifying any deviations from the given strategy, scrutinising the reasons for this and intervening if necessary.

The decision-making bodies of the Asset Manager's sustainability policy (ESG committee, the Asset Manager's governing body) also take part in this process.

### **9.3 Risk management**

Preventive risk management is carried out by the Management Company's risk management department in conjunction with the Asset Manager's risk management department. Risk management specialists formulate and implement the risk policy and the risk strategies for asset management. They identify, assess, measure and monitor the risks and are also responsible for the risk management function with respect to supervisory authorities and auditors.

### **9.4 Due diligence regarding external data providers:**

When selecting external data providers, the following key aspects are taken into account: data coverage, data quality assurance (data management and governance, data quality audits), process and/or business continuity management, IT/cybersecurity and test/inspection procedures for the software used. These topics are addressed on an annual basis with the external data providers. Special attention is paid to which changes have taken place since the previous reporting period and which specific improvement measures and/or adjustments have been taken.

## **10. Engagement policies**

### **10.1 Engagement**

The Asset Management actively encourages companies which it conducts dialogue to define ambitious CO<sub>2</sub>e reduction targets and to implement them consistently. It maintains continuous dialogue with the management of the larger invested companies and plays a proactive role via the UN's PRI Collaboration Platform as well as investor initiatives. Sustainable business practices are promoted which aim to protect the environment and the climate and to encourage biodiversity, fair working practices, discrimination-free work and the protection of human rights and which are aligned with international standards such as the UN's 17 Sustainable Development Goals (UN SDGs), the Science Based Targets Initiative (SBTI) and the UN Global Compact Principles. Furthermore, companies should consistently disclose their climate-related financial risks

to investors, lenders, insurance providers and other stakeholders in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). To supplement its own global and thematic engagement activities, and above all to commit to its strategy to reduce GHG emissions on a global scale, the Asset Management has commissioned Sustainalytics, an external engagement services provider.

The engagement guidelines are available at: [www.zkb.ch](http://www.zkb.ch)

## 10.2 Exercise of voting rights

The Management Company's exercise of voting rights is based on Swiss and international corporate governance rules, generally accepted ESG best practice standards and the UN's Principles for Responsible Investment (UN PRI). The voting conduct will be communicated in a timely and transparent manner at: [swisscanto.com/voting](http://swisscanto.com/voting). The relevant voting policy is available for inspection on this website. To exercise voting rights, the Management Company has commissioned an independent proxy adviser: Institutional Shareholder Services (ISS).

The voting policy is available at: <https://www.swisscanto-fondsleitungen.com/en/investment-stewardship.html>

We publish our voting conduct at [swisscanto.com/voting](http://swisscanto.com/voting).

## 11. Attainment of the sustainable investment objective

No designated reference benchmark is used.

### Version History in accordance with Art. 12 of Regulation (EU) 2019/2088

January 2023	Entry into force of the commission delegated regulation (EU) 2022/1288
September 2023	General: Adjustment of address of management company, various optimizations Chapter 1: Clarification of PAIs and regulation Chapter 5: Clarification of exclusion criteria, and additional country list Chapter 6: Clarification of reduction of CO2e intensity & sustainable investments Chapter 7: Clarification of data source
May 2024	General: different optimizations Chapter 5: Clarification of exclusion criteria Chapter 6: Sustainable Investments Chapter 7: Update on Data providers and estimates
July 2024	Chapter 8: Additions to limitations on methods and data
November 2024	Chapter 1: Clarification no significant harm to the sustainable investment objective Chapter 5: Clarification of exclusion criteria Chapter 6: Clarification Investments in Theme Adopters