



Sustainability is our conviction

Swiss edition



Zürcher
Kantonalbank

Swisscanto by Zürcher Kantonalbank

Proven specialists develop high-quality investment and pension solutions for private investors, companies and institutions under the Swisscanto brand. With its **Swisscanto** brand, the Zürcher Kantonalbank Group is one of Switzerland's largest fund providers. Its funds regularly achieve recognition.

At a glance: Our sustainability standard for the Responsible funds

(Traditional asset classes)

Integration of

ESG criteria

for more controlled risks and more informed investment decisions.



Exclusions

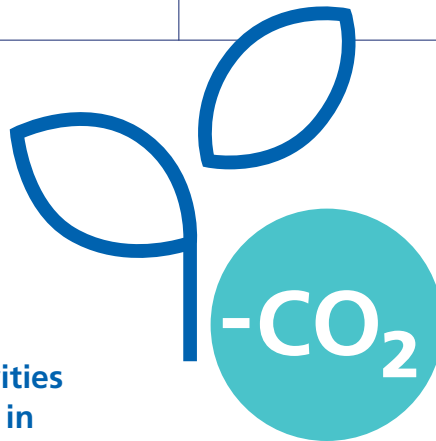
to avoid controversies are applied to companies and states based on clearly defined criteria.



We take into account the

Paris Agreement

and focus our investment activities in the active investment funds in the traditional asset classes on reducing CO₂e-emissions by at least 4% per year.

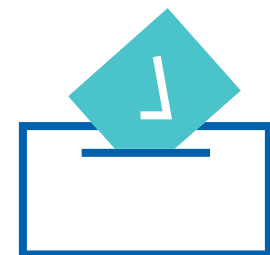


We shoulder responsibility through

investment stewardship

by exercising voting rights and maintaining an active dialogue with companies.

We publish our voting behaviour transparently.



Sustainability requires

transparency

Our customers receive a regular report on CO₂e-intensity and on the sustainability risks and opportunities of their investment.

Legal note: The sustainability approaches outlined in this brochure apply to the entire fund assets or to a significant part of the fund assets of the respective investment fund. Individual criteria can be implemented differently for the different product lines. The table on page 8 contains further information in this regard.

Paris Agreement in our active investment funds with the Responsible approach



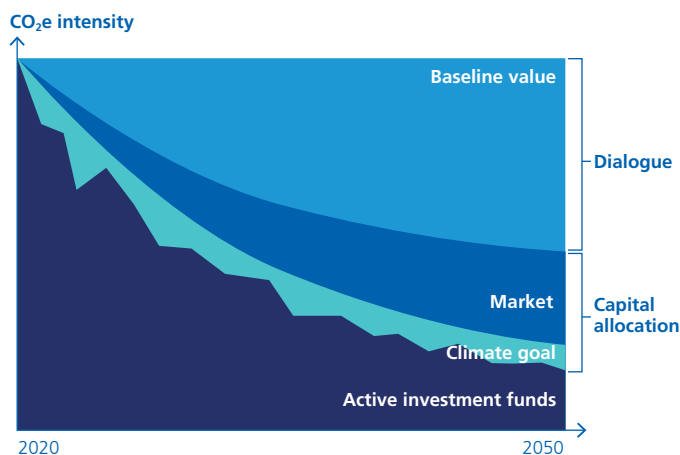
In order to limit global warming to below 2 degrees, global CO₂e¹ emissions must fall by at least 4% each year from 1 January 2020. This is confirmed by scientific data from the Intergovernmental Panel on Climate Change (IPCC).

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

As shareholder and creditor, we engage in active **dialogue** with companies, challenging them to formulate and implement effective goals to reduce CO₂e emissions.

Through **capital allocation**, we aim to ensure that all of our active Responsible funds in the traditional asset classes as well as our Sustainable funds have a decreasing carbon intensity that is in line with the Paris Agreement.

Achieving climate goals through dialogue and capital allocation



Source: Zürcher Kantonalbank

In addition to this, we are cutting CO₂e-intensive companies and states with no strategy for reducing their CO₂e emissions in favour of CO₂e-efficient companies and states and those that pursue CO₂e reduction goals.

Our benchmark is at least 4%. CO₂e emissions are expected to decrease by this value annually. We are guided by the available benchmarks for CO₂e intensity, which correspond to CO₂e emissions per unit of revenue or value creation. We have been transparently reporting the CO₂e intensity of our investment funds since 2021.

Implementation of the CO₂e goal

The target for each active portfolio that follows the absolute reduction path of our climate target is based on the CO₂e 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 CO₂e emissions by at least 4% per year and secondly, the value is corrected by the level of global economic growth. For companies, CO₂e intensity is measured as CO₂e 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 CO₂e intensity is thus as follows: $\text{Baseline value} \times (1 - 4\%)^{\text{year}} / (\text{cumulative nominal growth})$.

¹ CO₂ equivalents (CO₂e) are a unit of measurement to standardise the climate impact of the greenhouse gases carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O) and fluorinated greenhouse gases (FCFs). All of these gases remain in the atmosphere for different lengths of time and do not contribute equally to the greenhouse effect.

Fewer risks, more informed investment decisions



Exclusion of investments with ESG-critical business models

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

- Manufacture of weapons and ammunition
- Production of military hardware (> 5% revenue)
- UN Global Compact violations²
- Exploitative child labour
- Production of pornography
- Extraction of coal (> 5% revenue excluding metal production)³
- Coal reserves (excluding metal production)³

In addition to the exclusion criteria for business activities, we also maintain an exclusion list for states. In addition, government bonds from countries recommended for exclusion by SVVK-ASIR can also be excluded.

The exclusions can be adjusted if necessary.



Systematic ESG integration of ESG criteria

ESG criteria form an integral part of our active investment process. Systematic integration allows us to recognise the risks and the opportunities early, based on ESG trends, and turn them into added value for our customers. ESG criteria supplement the pure financial analysis, and we are convinced that they lead to more informed 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 benefit from the developments and which could therefore be able to make a positive contribution to 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.

² United Nations standard on human rights, labour rights, environmental standards and anti-corruption.

³ except green / sustainability bonds

Responsible across the board



Swisscanto Responsible index funds

Besides the exclusion criteria mentioned above, our dedicated product range takes into account further sustainability aspects: In accordance with the ESG total score, we conduct a “laggards-out process” to ensure that on average around 20% of the relevant investment universe is excluded for equities and around 15% for bonds for each peer group and reduce the carbon intensity compared with the benchmark by at least 20% (focus on companies). The requirements for an index-linked core investment (e.g. common benchmark, broad diversification, risk/return expectations according to the benchmark index) are adhered to at all times.

Swisscanto real estate funds also pursue a CO₂e reduction target

In the case of existing properties, we take into account the target values of the energy efficiency path (SIA 2040) in relation to reducing the CO₂e intensity, which is based on the vision of a 2000-watt society and the Paris Agreement.



Active dialogue/voting rights

As shareholder and creditor, we actively ask companies to formulate ambitious CO₂e reduction targets and to consistently implement them. In addition, we ask companies to join the Science-Based Targets Initiative. We are in constant dialogue with corporate management and are involved in the UN PRI collaboration platform and various investor initiatives. For the exercise of voting rights, we have our own sustainability-oriented voting guidelines based on Swiss and international corporate governance rules and the United Nations Principles for Responsible Investment (UN PRI). We publish our voting behaviour transparently at [swisscanto.com/voting](https://www.swisscanto.com/voting). In the case

of direct real estate investments, we assume commitment responsibility with active influence and consistent coordination behaviour in the case of co-owner groups. The tenants of the properties in the portfolio are actively informed and surveyed on sustainability issues and supported in the implementation to achieve the sustainability goals.

Engagement on three pillars

- **Direct dialogue:** As an active investor, we want to create visibility and use our expertise effectively to promote sustainability among companies in the interest of investors. As a global investor with Swiss securities, our focus is particularly on Swiss issuers.
- **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 and cleantech. 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
- CO₂e intensities
- Controversies
- Voting and engagement activities

Sustainable funds with a high degree of sustainability

Our sustainable product range goes one step further. We strive for returns through societal benefits by investing specifically in companies that make a contribution to fulfilling one of the UN's 17 Sustainable Development Goals (UN SDG leaders) with their sustainable business model. At the heart of our investment process is the SDG leader analysis, which identifies those companies from the global universe that use their innovation strength to create environmentally and socially compatible products and services. We also consider purpose-linked green, social and sustainability bonds from governments and quasi-governmental organisations as SDG leaders.

For diversification purposes, a best-in-class approach can also be used to invest in companies that otherwise perform above average in terms of our ESG criteria (ESG leaders).

Six investment areas that make the difference

Alongside the UN SDGs, we focus on companies and states from six investment areas, in which we are convinced that they contribute to the sustainable development of our environment and society. Specifically:

- Energy: Renewable energy, energy efficiency
- Mobility: Public transport, private transport

- Resources: Water, resource efficiency
- Health: Access to basic care, promotion of health
- Finance: Access to financial services, financial infrastructure
- Knowledge: Education, networking

Multistage investment process












All securities in our Sustainable investment universe undergo a complex sustainability process, which basically eliminates around 70% of the initial universe:

- Exclusion criteria: Broad exclusion criteria exclude around 20% of the initial universe.
- Best in class: An analysis of around 45 ESG criteria identifies companies that perform above average according to our analysis
- Investments in SDG securities: Companies and states with the highest societal benefits and profitable growth are identified.

And the 1.5-degree Paris climate target?






The reduction path of our Sustainable investment funds (excluding thematic funds) envisages a reduction in the CO₂e intensity of the investments by at least 7.5% annually and is aligned with the 1.5-degree climate target set by the Paris Agreement.

Sustainable Development Goals

01  No poverty	02  Zero hunger	03  Good health and well-being	04  Quality education	05  Gender equality	06  Clean water and sanitation
07  Affordable and clean energy	08  Decent work and economic growth	09  Industry, innovation and infrastructure	10  Reduced inequalities	11  Sustainable cities and communities	12  Responsible consumption and production
13  Climate action	14  Life below water	15  Life on land	16  Peace, justice and strong institutions	17  Partnerships for the goals	The global goals for sustainable development

Source: UNO (2016)

Our Swisscanto product range at a glance

Investment approach	Product line	Application ¹	Sustainability approaches					Transparency
			Stewardship 	Controversies 	ESG 	Climate 	ODD 	
			Voting/ Engagement	Avoid controversies	ESG integration	CO ₂ e reduction	Sustainable purpose ²	Sustainability report
Active	Sustainable	strategies in the traditional asset classes	✓	✓	✓	✓	✓	✓
	Responsible	strategies in the traditional asset classes	✓	✓	✓	✓		✓
		Direct real estate	✓		✓	✓		✓
Passive		Index strategies Responsible	✓	✓	✓	✓		✓
	Traditional (not sustainable)	Index strategies Standard	✓					

Increasing sustainability level ↑

¹ The sustainability approaches apply to the entire portfolio or to a significant part of the portfolio assets. Individual criteria and approaches can be implemented slightly different for the various product lines. Details on the corresponding Swisscanto funds and the approaches used can be found in the fund prospectuses under products.swisscanto.com.

² The "Sustainable Purpose" approach focuses on returns through investments in companies and countries with societal benefits (SDG leaders). SDG leaders use their investment power to provide environmentally and socially responsible products and services. In this way, they contribute to the fulfilment of one or more UN Sustainable Development Goals (UN SDGs). For diversification purposes, a best-in-class approach can also be used to invest in securities that are rated above average in terms of ESG criteria (ESG leaders).

Further information at: zkb.ch/am-sustainability

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