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. It is known for its vanguard role in sustainable investments and its funds regularly achieve national and international recognition.

At a glance: Our sustainability standard for Responsible funds

(traditional asset classes)

Application of

ESG criteria

leads to fewer risks and better investment decisions.

ESG

Omission

of companies generating more than 5% of their revenue from coal mining, for example.

We undertake to comply with the

Paris Agreement

and align our investment activities in the active investment funds in the traditional asset classes with a reduction in CO_2e emissions of at least 4% per year.

$-CO_2$

We take responsibility through

investment stewardship

by exercising voting rights and actively engaging in dialogue with companies.

We publish and are transparent about our voting procedures.

100% Swisscanto blacklist

Our blacklist with a focus on prohibited weapons is applied to all assets under our management.

Sustainability needs

transparency

Our customers receive a regular report on CO_2e intensity as well as 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.

The Paris Agreement in our active investment funds

In order to comply with the Paris Agreement and achieve global warming levels of below 2 degrees, global CO_2e[1] emissions must fall by at least 4% each year from 1 January 2020. This is proven by scientific data from the Intergovernmental Panel on Climate Change (IPCC).

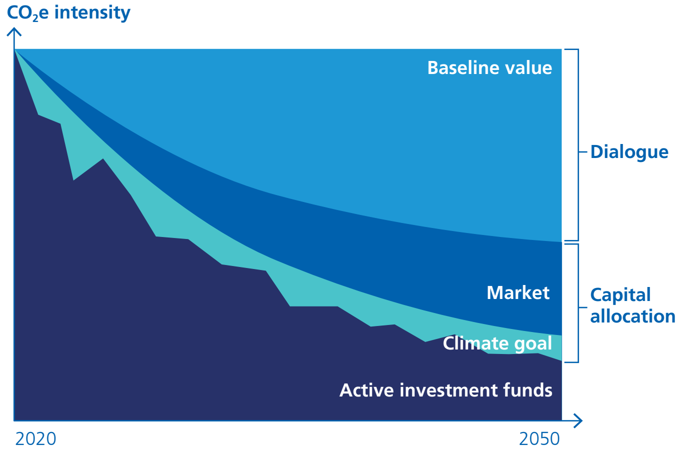
Against a background of major structural change, we want to protect our investors by optimally managing assets entrusted to us with regard to new or emerging risks and opportunities. Our 2020 climate strategy is therefore consistently focused on dialogue and capital allocation:

As shareholder and creditor, we engage in active **dialogue** with companies, challenging them to formulate and implement effective goals to reduce CO_2e emissions.

Through **capital allocation**, we 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 compatible with the Paris Agreement. In addition to this, we are cutting CO_2e-intensive companies and countries with no strategy for reducing their CO_2e emissions in favour of CO_2e-efficient companies and countries and those that pursue CO_2e reduction goals.

Our benchmark is at least 4%. CO_2e emissions are expected to decrease by this value annually. We are guided by the available benchmarks for CO_2e intensity, which correspond to CO_2e emissions per unit of revenue or value creation. We have been transparently reporting the CO_2e intensity of our investment funds since 2021.

Achieving climate goals through dialogue and capital allocation



Source: Zürcher Kantonalbank

Implementation of the CO_2e goal

The target for each active portfolio that follows the absolute reduction path of our climate target is based on the CO_2e 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_2e emissions by 4% per year and secondly, the value is corrected by the level of global economic growth. For companies, CO_2e intensity is measured as CO_2e 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_2e intensity is thus as follows: Baseline value × $(1-4\%)^{year}$ / (cumulative nominal growth).

[1] CO_2 equivalents (CO_2e) are a unit of measurement to standardise the climate impact of the greenhouse gases carbon dioxide (CO_2e), methane (CH_4), nitrous oxide (N_2O) 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.

Fewer risks, better investment decisions

Fewer risks by excluding companies with ESG-critical business models

In our sustainable active and index-linked Responsible solutions, we do not invest in 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 resulting from the Swisscanto blacklist (focus on prohibited weapons), these are currently companies associated with the following:

- Manufacture of weapons and ammunition
- Production of military hardware (>5% revenue)
- UN Global Compact violations[2]
- Child labour
- Production of pornography
- Extraction of coal (>5% revenue)[3]
- Coal reserves (excluding metal production)[3]

In addition to the exclusion criteria for business activities, we also maintain an exclusion list for states. When preparing this exclusion list, we primarily take into account socio-economic risk dimensions such as money laundering and corruption.

The exclusions can be adjusted if necessary.

Better investment decisions through the systematic 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 / sustainable bonds

Responsibility across the board

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 to 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 CO_2e 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 CO_2e intensity, which is based on the vision of a 2000-watt society and the 2-degree goal of the Paris climate agreement.

Swisscanto blacklist

We apply the Swisscanto blacklist in all actively managed and index-linked portfolios (including for non-sustainability-oriented funds). Manufacturers of prohibited weapons (cluster bombs and cluster munitions, anti-personnel mines and landmines, biological and chemical weapons, nuclear weapons, enriched uranium and glare laser weapons) are excluded in particular. In the evaluation, we primarily rely on Swiss legislation and agreements that have been ratified by Switzerland and are recognised internationally. In general, our evaluation is consistent with the recommendations for exclusion made by SVVK-ASIR. We reserve the right to exclude or not exclude additional companies at our own discretion.

Active dialogue/voting rights

As shareholder and creditor, we actively ask companies to formulate ambitious CO_2e 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. In the case of direct real estate investments, we assume commitment responsibility with active influence and consistent co-ordination 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.

Transparency

Since 2021, 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
- CO_2e intensities including a compatibility measurement in terms of the 2-degree climate target for active funds
- CO_2e reduction by at least 20% compared to the benchmark index for Responsible index funds
- excluded companies

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 significant 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 impact analysis, which identifies those companies and countries from the initial global universe that use their innovation strength to create environmentally and socially compatible products and services.

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 countries 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: The most sustainable companies are identified by analysing around 45 ESG criteria.
- Investments in SDG securities: Companies and countries with the highest societal benefits and profitable growth are identified.

And the 2-degree climate goal?

The CO_2e intensity of the investments in our Sustainable investment funds is also reduced by at least 4% per year. In the case of numerous Sustainable investment funds, the CO_2e intensity of the investments is even reduced by at least 7.5% per year.

Sustainable Development Goals

Source: UN (2016)

Our product range
at a glance

			Stewardship	Controversies		ESG	Climate	SDG	Transparency
Investment Process	Product line	Application[1]	Voting engagement	Swisscanto blacklist[2]	Further exclusions	ESG integration	Paris Agreement	SDG impact	Sustainability reporting
Active	**Sustainable**	Strategies in the traditional asset classes	✓	✓	✓[3]	✓	✓	✓	✓
	Responsible	Strategies in the traditional asset classes	✓	✓	✓	✓	✓		✓
		Direct real estate	✓	✓		✓[4]	✓[6]		✓
Passive		Responsible index strategies	✓	✓	✓	✓[5]	✓[7]		✓
	Traditional (not sustainable)	Standard index strategies	✓	✓					

Increasing the degree of sustainability

[1] The sustainability approaches apply to the entire fund assets or to a significant part of the fund assets. Individual criteria can be implemented differently for the different product lines.

[2] In a few exceptions, it is possible to deviate from the Swisscanto blacklist in justified cases and while safeguarding investor interests, e.g. when using third-party products.

[3] Extensive exclusions: The exclusion criteria in our Sustainable funds are once again significantly more comprehensive than in the Responsible range.

[4] Sustainability is a central criterion of the asset manager. In addition to economic aspects, ecological and social aspects are also given high priority.

[5] ESG screening: In the case of direct investments, the universe of securities is reduced by excluding securities that perform poorly in a peer comparison in terms of ESG criteria (laggards-out process).

[6] Energy efficiency of direct real estate: Here, we follow the SIA energy efficiency path (SIA 2040), which is based on the vision of the 2000-watt society and the 2-degree goal of the Paris climate agreement.

[7] The CO_2e intensity compared to the benchmark index is reduced in portfolio construction by at least 20% (focus on companies).

Further information at: zkb.ch/sustainability-am