

# Sustainable investment for clients domiciled in Switzerland

## Introduction

The development towards sustainability is based on the three ESG dimensions. “E” stands for environmental compatibility, “S” for social and “G” for responsible corporate governance. In order to specifically take sustainability aspects into account in its investment advice, SGKB surveys its clients' sustainability preferences. This information determines whether sustainable financial instruments are included in the portfolio composition.

## Your sustainability preference is required

By making a conscious decision in favour of or against sustainable investments, you set the course for the investment proposal that SGKB will provide to you.

If you prefer sustainable investments, you will be offered solutions that take sustainability into account.

If, on the other hand, you are not interested in sustainable investments or have a neutral stance on sustainability, all investment solutions are available to you without restriction.

## Sustainable investment at SGKB

SGKB understands sustainability as a holistic system that takes economic, social, and environmental aspects into account. A graphic representation of SGKB's sustainability approach can be found on page 3.

In **asset management**, SGKB offers you the “eco” mandate, which is implemented in accordance with SGKB's sustainability approach.

In **investment advice**, SGKB offers you its sustainable SGKB Eco strategy funds and sustainable third-party funds. SGKB applies the blending approach for this purpose. If you have a sustainability preference, at least one sustainable financial instrument will be included in your portfolio. You determine the extent of this sustainable investment yourself.

For the sustainable SGKB Eco strategy funds, SGKB applies the SGKB sustainability approach in accordance with the fund prospectus. The selection of sustainable third-party funds is carried out according to a structured process.

## SGKB sustainability approach in asset management “eco”

The “eco” asset management mandate has an investment objective (alignment) in which it selects financial instruments from companies/issuers that have a minimum MSCI ESG rating. In addition, the portfolio should outperform its benchmark in terms of global warming alignment (based on MSCI data).

Sustainability factors are incorporated by applying the following **sustainable investment approaches**.

- Exclusions: Companies/issuers are excluded based on specific exclusion criteria that target economic activity or are associated with controversial issues.
- Best in class approach: Targeted selection of companies/issuers with an ESG rating of at least BBB (data source: MSCI ESG rating).
- Positive screening: The global warming alignment of the portfolio is below the global warming alignment of the benchmark underlying the strategy.

To make the best choice of financial instruments in which to invest, SGKB uses a systematic methodology known as the SGKB sustainability approach (see chart on page 3) and research from MSCI ESG.

The financial instruments undergo **three selection phases**, which ultimately result in a sustainable portfolio.

In the first selection phase, known as the “Exclusion approach”, companies are excluded based on their business activities.

The second selection phase, the “Controversies approach”, plays a central role. Companies whose products or operations violate local laws or international standards such as the UN Global Compact and thus do not meet the requirements of the SGKB sustainability approach, are excluded. The violations can relate to all three dimensions – environment,

social, or corporate governance – and are based on data from MSCI ESG.

In the third selection phase, the “Best in class approach”, the review is carried out using an ESG rating, which must be at least BBB.

The final criterion for the SGKB sustainability approach is a downstream review of global warming alignment. The global warming alignment of the portfolio should be better than that of the benchmark underlying the strategy.

The “eco” asset management mandates apply the selection criteria relating to exclusions and best in class to at least 70% (excluding cash and derivatives) of the portfolio. In order to make optimum use of market opportunities, up to 30% of the portfolio may be invested in companies/issuers that do not meet the sustainability requirements of the first two criteria (exclusions and best in class).

Selection phases 1 to 3 are reviewed on an ongoing basis for shares, and for bonds, at the time of purchase.

Third-party funds are excluded from this, as they take their own sustainability approach into account in the investment process.

In justified exceptional cases, the global warming alignment of your portfolio may be higher than the benchmark (e.g. due to short-term and significant adjustments on the part of the regulator, methodology data provider MSCI, companies/issuers, etc.).

If additional instructions such as restrictions on the part of clients are defined for “eco” asset management mandates, this may also mean that not all requirements of the SGKB sustainability approach (e.g. global warming alignment is better than benchmark) can be met.

By signing an “eco” asset management mandate, you will receive sustainability reporting at least once a year. This includes a sustainability profile of your portfolio according to ESG and a sustainability profile of your portfolio according to climate indicators. The climate indicators show the global warming alignment for both the portfolio and the benchmark.

### SGKB sustainability approach for sustainable SGKB Eco strategy funds

The sustainable SGKB Eco strategy funds have an investment objective (alignment) in that investments are selected in securities of companies/issuers that have a minimum MSCI ESG rating. In addition, the funds should outperform their benchmark in terms of global warming alignment (based on MSCI data).

Sustainability factors are incorporated by applying the following **sustainable investment approaches**.

- Exclusions: Companies/issuers are excluded based on specific exclusion criteria that target economic activity.
- Best in class approach: Targeted selection of companies/issuers with an ESG rating of at least BBB (data source: MSCI ESG rating).
- Positive screening: The global warming alignment of the fund is below the global warming alignment of the benchmark underlying the strategy.

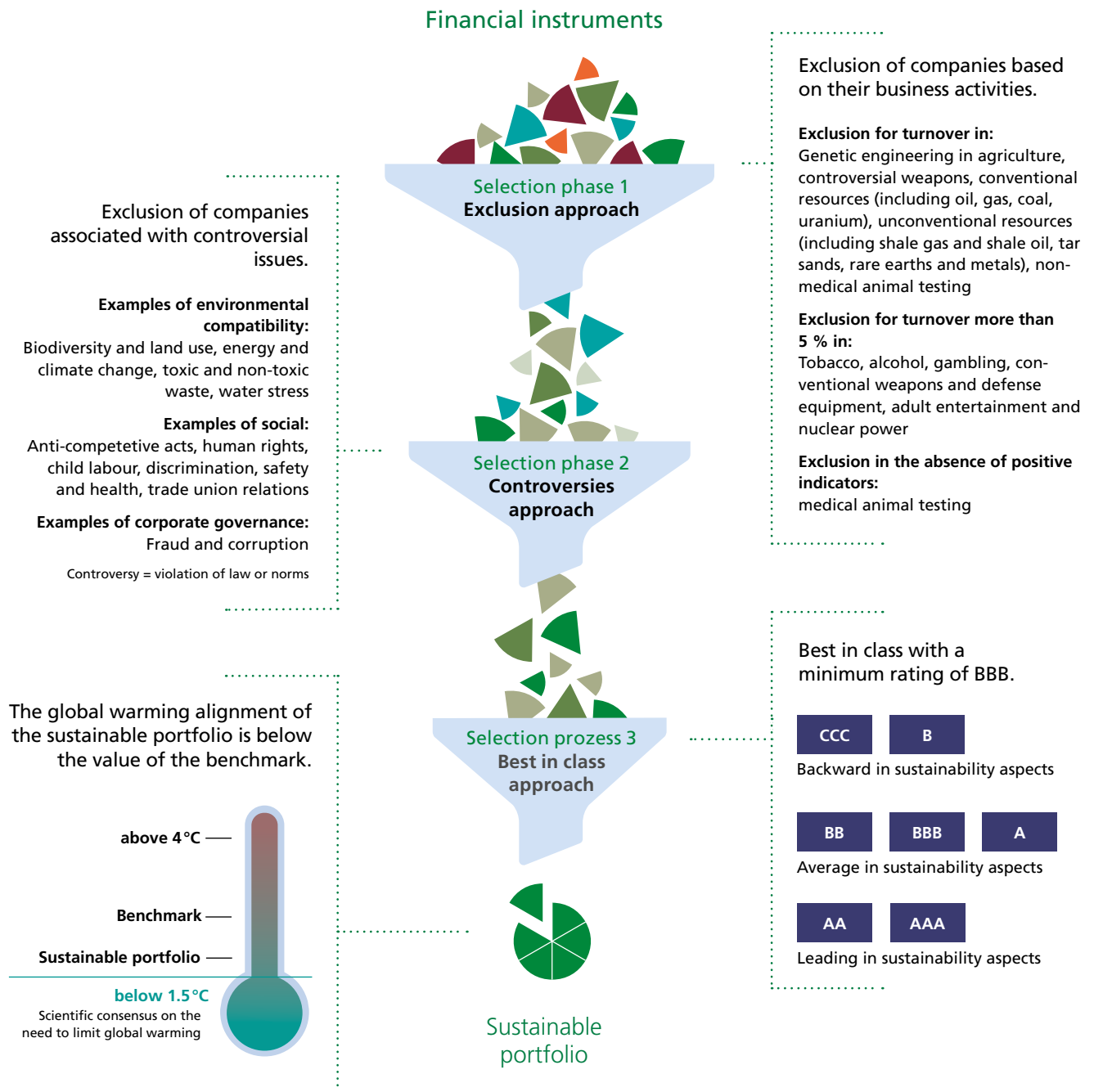
The sustainable SGKB Eco strategy funds apply the selection criteria to at least 70% (excluding cash and derivatives) of the fund. In order to make optimum use of market opportunities, up to 30% of the fund may be invested in companies/issuers that do not meet the sustainability requirements.

In order for a security to be included in the selection, the above requirements are reviewed at the time of purchase.

In justified exceptional cases, for example due to short-term and significant adjustments on the part of the regulator, methodology data provider MSCI, companies/issuers, etc., the global warming alignment at fund level may be higher than the benchmark.

The sustainable SGKB Eco strategy funds include ESG sustainability reporting in their monthly factsheets, as well as climate indicators in accordance with Swiss Climate Scores (reporting recommendation of the Federal Council). The climate indicators show the global warming alignment for both the fund and the benchmark.

# SGKB sustainability approach



Selection phases 1 to 3 are reviewed on an ongoing basis for shares, and for bonds at the time of purchase.  
Third-party funds are excluded from this, as they take their own sustainability approach into account in the investment process.

For sustainable SGKB Eco strategy funds, the exclusions for non-medical and medical animal testing are omitted from selection phase 1, and selection phase 2 is omitted entirely.  
The SGKB sustainability approach is applied to at least 70% of the investment volume.

## Selection process for sustainable third-party funds in investment advice

The assessment of sustainable funds is basically based on SGKB's traditional fund analysis process. In addition to selecting best in class funds, transparency plays an important role.

The following checks are carried out for the selection process of sustainable third-party funds.

1. The first step is to analyse the implementation process in detail. It is important that all elements of the sustainability approach are well documented. This relates to the process, but also to the origin of the data. It must be clear which sustainability-related data, tools and ratings from the various data providers (e.g. MSCI) are used.
2. The portfolio is in line with the described process and there must be no obvious contradictions (e.g. with top 10 positions). In the case of a climate fund, for example, sectors such as oil production may not be part of the portfolio.
3. Another point to consider is whether the described sustainability process can be implemented with the available resources (number of sustainability experts, expertise and experience). The greater the number of sustainability experts and their experience, the more the process can be based on the internal sustainability analysis. For smaller and less experienced teams, it is particularly important to implement sustainability expertise from third-party providers such as MSCI, for example.
4. Finally, the fund's categorisation according to the sustainable investment approaches (e.g. best in class, positive screening, climate, impact) is also reviewed.
5. SGKB favours products with a high level of sustainability. The exclusion criteria are strict, i.e. we exclude non-sustainable sectors such as tobacco, for example, or the turnover threshold for the company to be screened should be very low. For best in class ESG screenings, preference is given to approaches that are particularly strict in the selection process, e.g. only the top 25% of companies in a sector are considered, instead of the top 50%. In addition, the CO2 footprint (carbon footprint) should also be considered in order to better assess the climate impact of the investment.

Based on the above process, produces a list of recommended sustainable third-party funds, which can be used in investment advice. The sustainable third-party funds are categorised according to the sustainable investment approach they contain. Based on your wishes as to which sustainable investment approach should be included, the appropriate sustainable third-party funds are recommended to you.

The structure of the sustainable investment approach can be found in the respective prospectus of the financial instrument.

## Risks related to sustainability

ESG risks can arise due to events or conditions from the areas of environmental compatibility, social and responsible corporate governance already mentioned. They may currently, but also in the future, have a negative impact on profitability, costs, reputation and thus on the value of the company as well as the price of financial instruments.

Environmental risks include physical risks such as damage and costs arising from extreme weather events caused by climate change, such as storms or flooding. In addition, transition risks are also taken into account, which include, for example, regulatory risks or liability and legal risks.

Social risks can arise, for example, from violations of employment standards, a lack of attention to occupational health and safety or unfair treatment of staff.

Corporate governance risks may include, for example, unequal treatment of shareholders or a lack of control mechanisms.

ESG risks can have different effects on financial instruments. It is therefore important that these risk factors are taken into account when selecting financial instruments.

In the above-mentioned SGKB sustainability approaches, these risks are analysed and reduced by including the minimum rating of BBB through the research of MSCI ESG

By using the research of MSCI ESG, there is a risk that data relating to the implementation of sustainability criteria at target companies is not continuously available in sufficient quality and in this case only a limited analysis of target companies regarding sustainability criteria is possible.

Furthermore, in the context of sustainability there are not only influences of the economy/society/environment on a company/issuer (outside in) but also influences of a company/issuer on the economy/society/environment (inside out). This means the influence a company/issuer has on the economy/society/environment (e.g. through CO2 emissions, water poisoning).

The SGKB sustainability approaches consider both sides, the influence of the economy/society/environment on a company/issuer and the influence of the company/issuer on the economy/society/environment.

Further information on financial risks in connection with sustainability can be found in section 1.6 of the guidelines "Risk Involved in Trading Financial Instruments" dated June 2023 on the SGKB website [www.sgkb.ch/legal-guidelines](http://www.sgkb.ch/legal-guidelines).

## Research by MSCI ESG

MSCI ESG is a leading, independent company active in the area of ESG analysis, with more than 40 years of experience.

MSCI ESG assesses companies worldwide and then assigns them an ESG rating between AAA and CCC. The classification is based on a best in class approach within the individual sectors. Companies are therefore compared with each other within economic sectors. On the one hand, this means that even companies from sectors that are not considered sustainable can receive the top rating AAA rating. On the other hand, however, it also means that companies from different sectors cannot be compared with each other. MSCI ESG does not generally exclude any sectors or companies. The ESG rating from MSCI ESG is an external rating over which SGKB has no influence.

## Sustainable investment approaches

**Exclusions:** This includes both negative screening and norm-based exclusions that systematically rule out specific issuers from an investment portfolio due to activities or business practices that violate given norms or values based on clients' preferences or due to anticipated risks.

### Best in class:

A company's or issuer's ESG performance is compared with the ESG performance of its peers (e.g. of the same sector or industry) based on sustainability research/data. All companies or issuers with a metric or rating above a pre-defined threshold are considered investable. The threshold can be set at different levels (e.g. 30% best performing companies or all companies that reach a minimum ESG rating or 20% most-carbon efficient companies based on reported CO2 emissions). The level of the pre-defined threshold defines the size of the remaining investment universe. Some best in class approaches focus on a small share of the total investment universe, while others still define bigger shares of the total universe as investable.

**Positive screening:** The aim is to create a portfolio with a higher ESG rating or alignment on average than the benchmark, or to achieve an average minimum rating.

**Thematic investments:** This refers to investments that contribute to sustainable solutions in the environment or social dimension with regard to a specific theme. In the environmental dimension, this could include investments in renewable energy, energy efficiency, clean technology, low-carbon transportation infrastructure, water treatment and/or resource efficiency. In the social dimension, this includes investments in education, healthcare systems, poverty reduction and/or solutions for an ageing society.

**Impact investing:** Impact investments intend to generate a measurable, beneficial social and/or environmental impact alongside a financial return. Important differentiating factors from other forms of sustainable investments (namely thematic investments) are the intentionality of an investment in a sector, or an activity that has such a positive impact; the management process that allows for a direct impact or an impact approach; and the measurability

of the impact (depending on the asset class) through relevant key performance indicators (KPIs).

**Voting:** This term refers to investors expressing their preferences with regard to sustainability issues by actively exercising their voting rights based on sustainability principles or guidelines.

**Engagement:** Engagement refers to an active dialog between shareholders and management of investee companies or other relevant stakeholders with the aim of convincing them to consider environmental, social, and governance criteria within their sphere of influence.

**Climate alignment:** The climate alignment of a portfolio refers to the reduction of the environmental footprint over time by lowering its greenhouse gas emissions or those of the issuers it contains. For this purpose, the definition of greenhouse gas emissions in the Greenhouse Gas (GHG) Protocol is used, including at least scopes 1 and 2 and ideally scope 3 emissions in sectors where scope 3 emissions make up a material share of total emissions. Climate alignment should involve formulating a long-term target along with interim targets. The methodology applied should be based on internationally recognized standards such as the PAII Net Zero Investment Framework, the UN Asset Owner Alliance Target Setting Protocol or the Science Based Targets Initiative's framework for financial institutions.