Swisscanto Invest
by Zürcher Kantonalbank

Sustainability is our conviction

Swiss edition

Swisscanto Invest by Zürcher Kantonalbank

Proven specialists develop high-quality investment and pension solutions for private investors, companies and institutions under the Swisscanto Invest by Zürcher Kantonalbank brand. With its Swisscanto Invest by Zürcher Kantonalbank brand, the Zürcher Kantonalbank Group is one of the largest fund providers in Switzerland. It is known for its vanguard role in sustainable investments and its funds regularly achieve national and international recognition.

At a glance

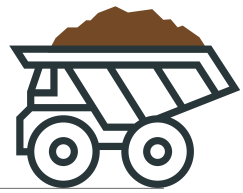
Application of

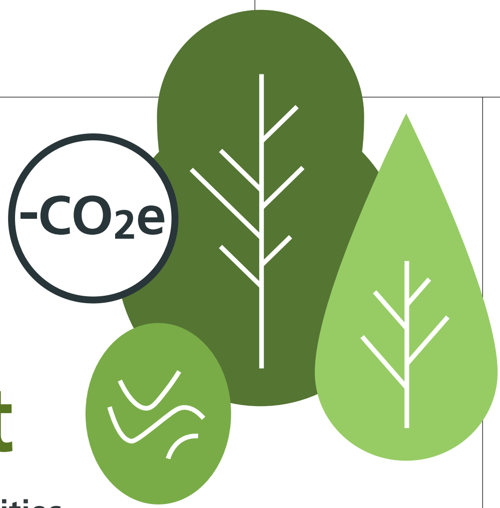
ESG criteria

leads to fewer risks and better investment decisions.

Renunciation

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





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.

We take responsibility through

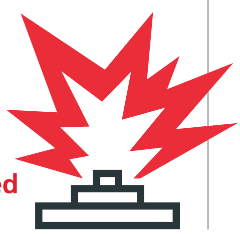
investment stewardship

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

We publish and are transparent about our voting procedures.

Blacklist in the index business as well

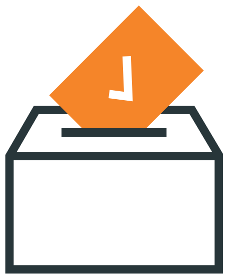
Companies that manufacture banned weapons are 100% excluded from our assets.



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: Implementation will take place over the course of 2020 (reporting from 2021). 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 fund

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 confirmed by scientific data from the Intergovernmental Panel on Climate Change (IPCC).

Here at Swisscanto Invest, our goal is to actively contribute to climate protection through our investments. Against a background of major structural change, we also 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.

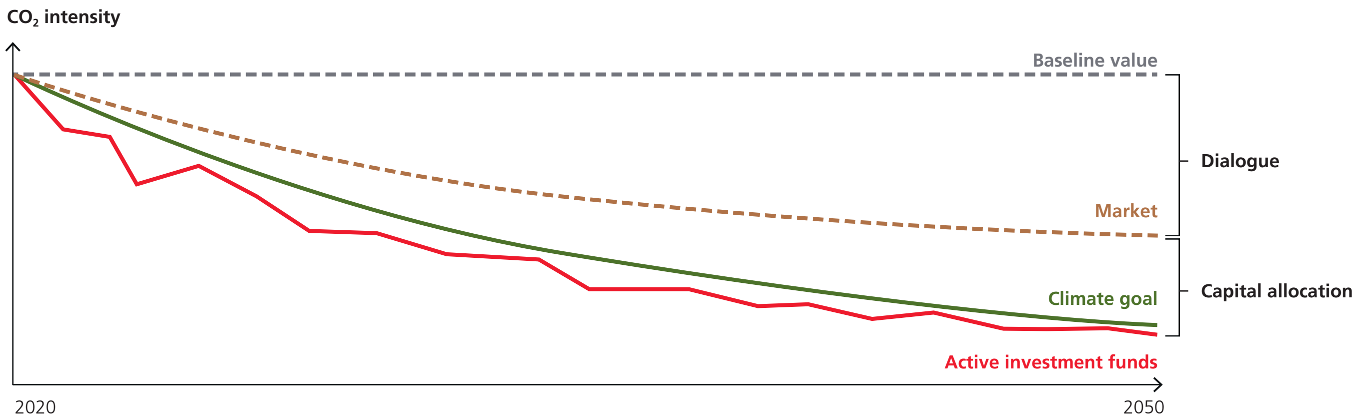
Through capital allocation, we ensure that all of our active Responsible funds in the traditional asset classes have a decreasing carbon intensity that is compatible with the Paris Agreement. In addition to this, we are cutting CO_2e-intensive companies and countries with no strategy for reducing their 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 capita or value chain. The CO_2e intensity of our investment funds will be reported transparently from 2021.

Implementation of the CO_2e goal
The target rate for every portfolio 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; 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 4% per year. Maximum CO_2e intensity is thus as follows:
Baseline value × $(1 - 4\%)^{year}$ / (accumulated 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_2), 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.

Achieving climate goals through dialogue and capital allocation



Source: Swisscanto Invest

Fewer risks, better investment decisions

Fewer risks by excluding companies with ESG-critical business models

We don't invest in companies that, based on our ESG considerations, don't have a future-oriented business model and/or present unacceptable reputation risks. In addition to the exclusions resulting from the blacklist are companies associated with the following:

- weapons and ammunition manufacturing
- extraction of coal (turnover > 5%)
- production of pornography
- UN Global Compact violations[2]

We constantly adapt the exclusions to new developments and social norms.

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 equity, 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.

Detailed analysis of the biggest risks

Further risk analysis is undertaken for issuers with particularly noticeable ESG risks. Our overall quantitative ESG score serves as the basis for our investment decisions. The ESG score is calculated for all securities in the investment universe for which data is available in the three dimensions: **E**, **S** and **G**. Countries and unlisted companies are also evaluated. All data sources originate from independent organisations. The lowest 20% of the total scores undergo particularly detailed ESG analysis. An investment in these securities is only possible for economic and diversification reasons and must be justified accordingly.

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

Responsibility across the board

Responsible index funds
Our dedicated product range takes sustainable aspects into account in the indexed portfolio. On the one hand, the aforementioned exclusions of companies with ESG-critical business models are applied. In addition, in the Responsible index funds we exclude the worst 20% of companies per sector on average on the basis of the Swisscanto Invest ESG score ("laggard-out") and reduce the carbon footprint by approx. 20%. We rely on a methodological process in which the requirements for an indexed core investment (e.g. common benchmark, broad diversification, return/risk expectations according to the benchmark index) are adhered to at all times.

Swisscanto real estate funds on the CO_2e intensity path
In the case of existing properties, we take into account the target values of the energy efficiency path (SIA 2040), which is based on the vision of a 2000-watt society and the 2-degree goal of the Paris climate agreement. We also orient ourselves towards established standards (e.g. Minergie) with regard to energy efficiency in construction projects. We focus on renewable energies for new buildings and heat generation in existing properties.

Blacklist
We apply the Swisscanto blacklist in all actively managed and index-linked portfolios. 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 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.

Transparency in every portfolio
From 2021, our customers will receive a detailed report on their asset values with regard to various key sustainability figures and/or dimensions, such as:
- ESG ratings
- CO_2e intensities including 2-degree compatibility measurement
- excluded companies

Impact fund with a very high degree of sustainability

Our sustainable product range goes one step further. We systematically focus on returns with social benefits and invest specifically in companies that make a significant contribution to fulfilling one of the UN's 17 Sustainabile Development Goals (UN SDGs) 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.

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 sanitation, promotion of health
- Finances: access to financial services, financial infrastructure
- Knowledge: education, networking

Multistage investment process

All securities with a sustainability impact are subjected to a complex sustainability process, which ensures that companies and countries in our Sustainable portfolios have the greatest societal impact. As a result, around 70% of the initial universe is dropped.

- Exclusion criteria: Broad exclusion criteria exclude around 20% of the initial universe.
- Best-in-class and media research: The most sustainable companies are identified by analysis of 45 ESG criteria.
- Sustainability impact analysis: Companies and countries with the highest societal benefits and profitable growth are identified.

And the 2-degree climate goal?

The weighted carbon intensity in the Sustainable investment funds is now generally at least 50% lower than with the benchmark index, as the CO_2e-intensive companies without a climate strategy are consistently avoided. No investment is made in the promotion of fossil fuels, in the operation of fossil-fuelled power plants, in airlines or in manufacturers of automobiles and aircraft. We have been following this investment philosophy for Sustainable investment funds for over twenty years.

Sustainable Development Goals

Source: UN (2016)

Our product range at a glance

			Stewardship	Controversies		ESG	Climate	Impact	Transparency
	Product line	Application[1]	Voting engagement	Swisscanto blacklist[2]	Further exclusions	Systematic ESG integration	CO_2e reduction	Impact investing	Sustainability reporting[8]
Active	**Sustainable**	Impact funds with a very high degree of sustainability			3				
	Responsible	Funds in the traditional asset classes							
		Direct real estate funds				4	6		
Passive		Responsible index fund				5	7		
		Standard index fund							

Increasing the sustainability level

[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 impact 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 (laggard-out).
[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] CO_2e reduction: Instead of the recurring CO_2e reduction of 4% p.a. from 2020, the CO_2e intensity will be reduced by approx. 20% compared to the benchmark index in the portfolio construction.
[8] Reporting available from 2021