



Portfolio Management Mandate "Focus Sustainability"

Sustainability-related disclosures

March 2021

(a) Summary

This financial product promotes environmental and social characteristics, but does not have as its objective a sustainable investment (in the sense of the EU and including the "do no harm" principle). The characteristics promoted by this financial product consist of investing in fixed income and equity of corporates and fixed income of states with good to excellent Environmental, Social and Governance (ESG) ratings. The investment objective is a positive contribution to a sustainable future including environmental, social and economic aspects to the same extent.

Corporate issuers are excluded by product (tobacco, gambling, armaments, pornography, nuclear power) and by conduct (UN Global Compact violation) while sovereign issuers for not signing international conventions on controversial weapons and because of UN sanctions, lack of political rights etc. In addition, a better ecological footprint on asset-weighted basis of the portfolio vs. MSCI ACWI is pursued in four dimensions: GHG emissions, energy use, water withdrawal, waste generation. Further, LGT-wide exclusions apply ([LGT Exclusion Policies](#)). The policy to assess good governance practices is to apply the governance-related sustainability indicators used in the LGT Sustainability Rating for every corporate investment (fixed income and equity) and refers to sound management structures, employee relations, remuneration issues and tax compliance. In addition, the governance-related sustainability indicators are accentuated in case of controversies: negative news are factored in the LGT Sustainability Rating as a deduction from the score originally reached by a company in this very indicator. The LGT Sustainability Rating and sustainability indicators used to measure the ESG characteristics of investments are assessed in our proprietary ESG rating system, using raw data from renowned external ESG data providers. The proprietary ESG ratings methodology is improved constantly to ensure accurate assessment of an investment's ESG quality, reflecting the latest market and regulatory development.

The proportion of the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product in accordance with the binding elements of the investment strategy, i.e. 4 and 5 star rated single line investments, should be as big as possible. The purpose of the remaining proportion of the investments is asset allocation management, buy-in of niche market-related expertise as well as buy-in of special thematic knowledge. For further details to each category please see section (e) hereinafter. The investment process includes pre-trade and post-trade checks against the binding elements performed by portfolio management, the internal ESG Committee as well as by compliance via the bookkeeping tool Avaloq. During the holding period, daily checks are conducted on whether ratings for the single-line and collective vehicles are intact. Single-line bond and equity investments as well as collective vehicles are divested in cases of adaptations in the asset allocation requirements set by the Investment Committee of LGT Bank and/or deteriorating financial and/or sustainable attractiveness or in cases of profit taking.

(b) "No sustainable investment objective"

This financial product promotes environmental and social characteristics, but does not have as its objective a sustainable investment (in the sense of the EU and including the "do no harm" principle).

(c) "Environmental or social characteristics of the financial product"

The characteristics promoted by this financial product consist of investing in fixed income and equity of corporates and states with good to excellent Environmental, Social and Governance ratings while

a) Excluding corporate issuers by product (tobacco, gambling, armaments, pornography, nuclear power) and by conduct (UN Global Compact violation);

b) excluding sovereign issuers for not signing international conventions on controversial weapons and because of UN sanctions, lack of political rights and civil liberties ("unfree countries"), lack of press freedom, high level of corruption;

c) striving for a better ecological footprint on asset-weighted basis of the portfolio vs. MSCI ACWI in four dimensions: GHG emissions, energy use, water withdrawal, waste generation.

In addition, LGT-wide exclusions apply ([LGT Exclusion Policies](#)).

(d) "Investment strategy"

(a) The investment strategy is focused on the investment objective of this financial product: positive contribution to a sustainable future – for the environment, society and the economy. Ecological, social and economic sustainability have the same importance in the investment strategy of this financial product.

(b) The policy to assess good governance practices is to apply the governance-related sustainability indicators used in the LGT Sustainability Rating to every corporate investment (fixed income and equity):

- 1) Sound management structures are checked via "board independence and expertise" as well as via "ownership structure";
- 2) Employee relations are checked via "integration of sustainability aspects in corporate strategy";
- 3) Remuneration issues are checked via "compensation policy (long-term and ESG oriented)";
- 4) Tax compliance issues are checked via "accounting practices";

In addition, the governance-related sustainability indicators are accentuated in case of controversies: negative news in relation to tax compliance of a given company for instance, are factored in the LGT Sustainability Rating as a deduction from the score originally reached by a company in this very indicator.

(e) "Proportion of investments"

a) The proportion of the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product in accordance with the binding elements of the investment strategy, i.e. 4 and 5 star rated single line investments only as described above, should be as big as possible.

b) The remaining proportion of the investments and their respective purposes are:

First, asset allocation management. The US equity exposure, for example, in the mandate has to reflect the positioning of the LGT Investment Committee - in order to mirror this exposure in a cost-sensitive and speedy manner, a SRI ETF in the US is bought in case the existing single-line positions in this segment are not eligible for position percentage increase or if no further US equities are found in a timely manner that fulfill the strict financial and ESG criteria described above. LGT is striving to use as much SRI ETFs as possible where needed since we are convinced that those ETFs are the most diligently and strictly environmentally and socially screened ETFs.

Second, buy-in of niche market-related expertise. The EM Bond exposure, for instance, is covered via an actively managed external fund.

Third, buy-in of special knowledge. Overarching sustainability topics like "water" are linked to migration, climate, food, sanitation, etc. and hence play an important role in overcoming sustainability-related challenges. LGT is sure that there is more special knowledge in this field at specialized companies and hence sources in this knowledge while employing actively managed third party funds for this end.

Minimum environmental and social safeguard checks are thoroughly conducted by the Fund Research Team prior to investing in the remaining third-party vehicle proportion as described under b) - the LGT exclusions on controversial weapons and thermal coal apply in any case and in addition at least an "average" sustainability quality, i.e. a 3-star rating as described above, has to be reached for these vehicles.

c) Distinguish between direct exposures in investee entities and all other types of exposures to those entities

Due to the above depicted usages of collective vehicles for investment grade steering and/or building up of exposure to niche-markets and/or buying-in of special knowledge, it might happen that investments are held twice: once in the single-

line exposure and once in a collective vehicle. The percentages of exposure to an investment via single-lines and via collective vehicles vary of course depending on the employment of such vehicles, market fluctuations, existence in benchmark and potential weight changes in those benchmarks of the respective vehicle and are hence not stable over time.

(f) "Monitoring of environmental or social characteristics"

The environmental or social characteristics and the sustainability indicators mentioned in pre-contractual disclosure are monitored throughout the lifecycle of the financial product like follows:

1) Pre-deal: screening of single-line equity and bond investments with "good" (4-star rated investments according to the LGT Sustainability Rating) to "excellent" (5-star rated investments according to the LGT Sustainability Rating) and collective vehicles with at least "average" (3-star rated investments according to the LGT Sustainability Rating) sustainability quality takes place in order to mirror the asset allocation requirements set by the Investment Committee of LGT Bank. The minimum environmental and social safeguard checks for 3-/4- and 5-star rated collective vehicles are thoroughly conducted by the Fund Research Team.

2) Holding period: daily checks on whether above mentioned ratings for the single-line and collective vehicles are intact - changes are especially likely during reporting season and in cases of intensified company/country related news flows.

3) End of life: single-line bond and equity investments as well as collective vehicles are divested in cases of adaptations in the asset allocation requirements set by the Investment Committee of LGT Bank and/or deteriorating financial and/or sustainable attractiveness or in cases of profit taking. Single names that have initially been included in the portfolio with a 4- or 5-star rating and experienced a subsequent deterioration of their sustainability quality to 3-stars have to be divested within 30 days. However, it is possible to pitch for an investment in a 3-star rated single name at the ESG Committee of LGT Bank. The LGT Bank ESG Committee might grant the PM Team Sustainability exceptional allowance of investing in such a 3-star rated single-line investment - those exceptions from the rule have to be documented in writing.

This strategy is implemented in the investment process continuously by pre-trade and post-trade checks against the binding elements performed by portfolio management, the internal ESG Committee as well as by compliance.

(g) "Methodologies" & (h) "Data sources and processing"

The proprietary ESG rating system uses data from renowned external data providers that specialize in ESG related data. The data can both be qualitative or numeric, and is then evaluated using proprietary algorithms that include scoring of certain data items, comparing data to relevant peer groups etc. to arrive at a certain number of KPI scores related to E, S, and G topics. These KPI scores are then weighted to arrive at the overall numeric ESG rating for companies and government-related investments. The selection of data used and the respective weights of the KPIs used are set by the investment manager and can vary across different business activities of the underlying assets.

Additionally, environmental footprint measures are also calculated for companies, normalizing environmental impact measures like greenhouse gas emissions, energy consumption, water withdrawal and waste generation by companies' revenues or enterprise value. Finally, the products and services of companies are assessed with respect to their environmental and social impact, using proprietary numeric impact measures as well as companies' revenues from the different products or services. These measures are also used to assess the ESG characteristics of the underlying assets.

In the case of missing data, data is estimated using values from company peers with respect to industry and geographical location. Overall, 10% to 15% of the data used is estimated. As the measures used are all based on data and algorithmic assessment of the data, data errors can invalidate the results in some cases. Therefore, both automated and manual data checks are implemented prior to calculating any results. Additionally, the results are cross checked before investment decisions are made.

The sustainability indicators used comprise the overall ESG score derived as described above, as well as individual E, S, and G scores. Additionally, the environmental impact measures of companies' operations and the numerical environmental and social impact measure for companies' products and services are also used. All measures are

aggregated to the overall portfolio level and then either compared to the respective benchmark or assessed on a standalone basis to assess the ESG characteristics of the portfolio.

(i) "Limitations to methodologies and data"

Limitations to methodologies and data are:

- 1) The proportion of estimated data could result in an incomplete assessment of an investment's ESG quality. We are addressing such limitation by sourcing data from many different renowned ESG data providers to reduce the proportion of estimated data. However, it heavily depends on the market and regulatory bodies to address this limitation, i.e. how market standards / regulations require a company to report on more ESG data and ensure the respective quality of ESG data. As the proportion of estimated data is relatively small, we believe it does not affect the attainment of the environmental and social characteristics promoted by the financial product.
- 2) Methodology used to calculate the ESG rating of investments might be out of date in the long term and therefore not ensure accurate assessment of an investment's ESG quality. This limitation is addressed through constant improvement of ESG ratings methodology, reflecting the latest market and regulatory developments.

(j) "Due diligence"

Due diligence on the underlying assets of the financial product is carried out as depicted under (f) above in the investment process continuously by pre-trade and post-trade checks against the binding elements and performed by portfolio management, the internal ESG Committee as well as by compliance via the bookkeeping tool Avaloq.

(k) "Engagement policies"

n/a

(l) where an index is designated as a reference benchmark for the purpose of attaining the environmental or social characteristics promoted by the financial product, 'Designated reference benchmark'

n/a

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Risk information on LGT Sustainability Rating

To determine the LGT Sustainability Rating, the companies, countries and supranational organizations underlying the investment vehicles are assessed according to criteria defined by LGT with respect to the areas of environment (E), social issues (S) and corporate governance (G). Corporate and country-specific sustainability data (raw data) of external data providers feed into this rating. The LGT Sustainability Rating is a result based on criteria and calculation methods determined by LGT. It does not claim to be exhaustive, accurate or up to date. The LGT Sustainability Rating is not substantiated by LGT. Any liability of LGT is excluded. The LGT Sustainability Rating does not constitute advice, an offer, a solicitation or invitation to submit an offer; it is neither a basis for a decision nor a recommendation to buy or sell investment vehicles or other specific products and does not constitute advertising for products or services. Advice from a qualified specialist before making an investment decision is recommended. Investments may be subject to fluctuations. A high LGT Sustainability Rating and a high ESG score do not guarantee a good or better performance of the investment vehicle or other products, in particular in comparison with an investment with a lower LGT Sustainability Rating. The LGT Sustainability Rating must be strictly separated from other analyses and assessments.