

# ESG preferences in the investment advisory process

We are conscious of our responsibility towards the environment, society and future generations. With a holistic approach, we are committed to underpinning our business with ethical principles as well as social and environmental responsibilities, thereby fostering sustainable and beneficial development. By doing so we create added value – for our stakeholder groups and for the environment.

This document explains how Zuger Kantonalbank integrates ESG topics into its investment advice and puts its clients' ESG preferences into practice.

By identifying our clients' ESG preferences we ensure that investment decisions meet their ESG needs and are factored into investments.

## What we mean by ESG

ESG stands for Environmental, Social and Governance. Investing in accordance with ESG criteria means weighing up the corresponding opportunities and risks in these three areas when making investment decisions. Although there is no conclusive list of the topics and factors involved or any universally binding definitions for this concept, it may be taken to refer to the implementation of principles that promote environmentally compatible and sustainable development.

## Our investment approach

Incorporating ESG criteria into the investment decision-making process is designed to reduce ESG risks in the portfolio and allow the corresponding ESG opportunities to be exploited. Companies that take ESG aspects into account tend to exhibit better long-term corporate quality and a superior ability to react to risks and opportunities compared to those with a poor ESG rating. Exclusion criteria are defined as a first step in a two-part selection process and then applied in the creation of a responsible investment universe. On this basis, classic financial analysis instruments are then used in a second step to create a portfolio that combines both responsible and classic factors of financial analysis.

## ESG preferences in the investment advisory process

Establishing our clients' ESG preferences in line with the Swiss Bankers Association's binding guidelines enables us to ensure that the investment decisions meet the clients' ESG needs and are taken into account when making investment choices. Zuger Kantonalbank differentiates between the following four profiles:

- **ESG disregarded:** ESG aspects are not relevant to the client and are therefore not taken into account when selecting investments. However, Zuger Kantonalbank is free to offer its clients financial products with ESG characteristics if these products meet their financial needs.
- **Neutral:** The focus is on financial interests, while the client has a neutral position on ESG. Zuger Kantonalbank is free to offer its clients financial products with ESG characteristics if these products meet their financial needs.
- **Consideration of ESG factors:** ESG aspects are important to the client. These should be taken into account in the portfolio composition. Accordingly, only investments from the responsible investment universe are recommended.
- **Incorporation of ESG and climate considerations:** Alongside ESG, climate aspects are also important to the client. Investments from the responsible investment universe are recommended. In addition, a reduced implicit temperature increase is sought at the portfolio level. This is associated with a significant restriction on the investable investment universe.

Zuger Kantonalbank reserves the right to adjust the framework conditions for the implementation of these profiles at any time.

### Key figures used

In addition to the ESG exclusion criteria of Zuger Kantonalbank, the implicit increase in temperature also plays an important role in the implementation of ESG preferences in client portfolios.

The application of various **ESG exclusion criteria** enables us to proactively mitigate risks that may arise from controversial business activities. We therefore focus on companies with greater resilience to long-term ESG risks of relevance to the sector. Issuers who fail to comply with defined standards or values closely related to the sustainability aims are thus excluded. We distinguish between norms-based exclusions (companies that violate internationally recognised norms and standards), values-based exclusions (companies whose business activities are deemed inadmissible for an investor) and country-based exclusions (countries that systematically breach international standards). You can find a detailed overview of our exclusion criteria on our website.

**Implied temperature rise (ITR)** is a future-oriented metric indicating the extent to which a portfolio is aligned with the global climate goals approved in Paris in 2015. The Paris Agreement set the goal of limiting global warming to well below 2 degrees Celsius, preferably to 1.5 degrees Celsius above the pre-industrial level. In addition to the current CO<sub>2</sub>e emissions, the decarbonisation targets of the respective companies are also taken into account when calculating the ITR. Investors can use the ITR to define targets and support engagement on climate risks. Like any other forward-looking method, the implicit temperature rise is a simplified representation of a possible future development that remains highly uncertain.

### Publications

You can find more information on these key figures as well as further publications relating to ESG on our website at [www.zugerkb.ch/en/esg](http://www.zugerkb.ch/en/esg).

## We are signatories to or members of the following organisations

Signatory of:



### Contact

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