

ESG at Zuger Kantonalbank

# ESG reporting methodology

As the leading bank in the Zug economic region, we are aware of our responsibilities. We think and act in a future-oriented way, and incorporate environmental and social aspects into our ambitious commercial objectives. By doing so we create added value – for our stakeholder groups and for the environment.

## Purpose

This document serves as a guide and explanation for ESG data published in the ZugerKB fund factsheets and in other documents related to the investment funds. All data, with the exception of the portfolio weightings, are based on calculations by MSCI ESG Research LLC.

## ESG-related data

### ESG Coverage

The number indicates the proportion of securities held in the fund that have an ESG Rating and contribute to the portfolio's overall rating.

$$\text{ESG\_coverage} = \frac{\sum_{n=1}^{\text{all long positions in PF with ESG data}} (\text{PF\_weight}_n)}{\sum_{n=1}^{\text{all long positions in portfolio}} (\text{PF\_weight}_n)}$$

### ESG Quality Score

Expresses the overall valuation of the fund, which can range from 0 up to 10 points. The ESG Quality Score corresponds to the weighted mean of the ESG Quality Scores of the securities underlying the investment fund.

$$\text{ESG\_quality\_score} = \frac{\sum_{n=1}^{\text{all long positions in PF with score}} (\text{ESG\_quality\_score}_n \cdot \text{PF\_weight}_n)}{\sum_{n=1}^{\text{all long positions in PF with score}} (\text{PF\_weight}_n)}$$

### Environmental Score

The Environmental Score ranges from 0 up to a maximum of 10 points. It measures the extent to which the investment fund takes account of the relevant environmental risks and opportunities, e.g. climate change and energy efficiency, promotion of renewable energies and biodiversity, or reduction of pollution. The Environmental Score corresponds to the double-weighted average of the Environmental Scores of the securities underlying the investment fund.

$$\text{Environmental\_score} = \frac{\sum_{n=1}^{\text{all long positions in PF with score}} (\text{Environmental\_score}_n \cdot \text{Environmental\_weight}_n \cdot \text{PF\_weight}_n)}{\sum_{n=1}^{\text{all long positions in PF with score}} (\text{Environmental\_weight}_n \cdot \text{PF\_weight}_n)}$$

### Social Score

The Social Score ranges from 0 to 10 points. It measures the extent to which the investment fund takes account of the relevant social risks and opportunities, e.g. prohibition of child and forced labour, job security and health, or the promotion of learning and gender equality. The Social Score corresponds to the double-weighted average of the Social Scores of the securities underlying the investment fund.

$$\text{Social\_score} = \frac{\sum_{n=1}^{\text{all long positions in PF with score}} (\text{Social\_score}_n \cdot \text{Social\_weight}_n \cdot \text{PF\_weight}_n)}{\sum_{n=1}^{\text{all long positions in PF with score}} (\text{Social\_weight}_n \cdot \text{PF\_weight}_n)}$$

### Governance Score

The Governance Score ranges from 0 to 10 points. It measures the extent to which the investment fund takes account of the relevant risks and opportunities in terms of company management, e.g. measures to prevent corruption and bribery, fair remuneration of corporate bodies, diversity in the company's management bodies or impartiality of auditing bodies. The Governance Score corresponds to the double-weighted average of the Governance Scores of the securities underlying the investment fund.

$$\text{Governance\_score} = \frac{\sum_{n=1}^{\text{all long positions in PF with score}} (\text{Governance\_score}_n \cdot \text{Governance\_weight}_n \cdot \text{PF\_weight}_n)}{\sum_{n=1}^{\text{all long positions in PF with score}} (\text{Governance\_weight}_n \cdot \text{PF\_weight}_n)}$$

### ESG-Rating

The ESG Rating measures the resilience of a company to long-term ESG risks of relevance to its sector. The scale ranges from AAA (best rating) to CCC and is directly related to the ESG Quality Score. Whereas the leading companies (ratings AAA and AA) have their ESG risks and opportunities under control and are therefore less exposed to potential risks, the "laggards" (ratings B and CCC) do not have such management processes in place.

<b>ESG Quality Score</b>	0/7–10/7	10/7–20/7	20/7–30/7	30/7–40/7	40/7–50/7	50/7–60/7	60/7–70/7
<b>ESG-Rating</b>	CCC	B	BB	BBB	A	AA	AAA

### ESG Rating distribution

This metric indicates the percentage distribution of the securities underlying the portfolio in terms of their ESG Ratings. Positions without a rating are flagged accordingly.

$$\text{Weight\_AAA} = \frac{\sum_{n=1}^{\text{all long positions in PF with Rating AAA}} (\text{PF\_weight}_n)}{\text{all long positions in PF with Rating AAA}}$$

## Climate-related data

### Carbon intensity

Carbon intensity indicates the level of CO<sub>2</sub> emissions per USD 1 million in revenues of the companies included in the portfolio. As this metric is expressed in tonnes of CO<sub>2</sub> per USD 1 million of sales, comparisons are possible regardless of the size of a company or an investment fund. Securities without any CO<sub>2</sub> data are not included in the calculation.

$$\text{Carbon\_intensity} = \frac{\sum_{n=1}^{\text{all long positions in PF with carbon intensity}} (\text{Carbon\_intensity}_n \cdot \text{PF\_weight}_n)}{\sum_{n=1}^{\text{all long positions in PF with carbon intensity}} (\text{PF\_weight}_n)}$$

### Carbon footprint

Carbon footprint relates to the level of CO<sub>2</sub> emissions per USD 1 million of EVIC of the companies included in the portfolio. This metric is measured in tonnes of CO<sub>2</sub> per USD 1 million EVIC (Enterprise Value Including Cash). This makes it possible to compare companies as a whole (equity and debt capital). Securities without any CO<sub>2</sub> data are not included in the calculation.

$$\text{Carbon\_footprint} = \frac{\sum_{n=1}^{\text{all long positions in PF with carbon footprint}} (\text{Carbon\_footprint}_n \cdot \text{PF\_weight}_n)}{\sum_{n=1}^{\text{all long positions in PF with carbon footprint}} (\text{PF\_weight}_n)}$$

### Coal exposure

The percentage of companies whose business is associated with power plant coal, particularly in respect of reserves held, coal production and electricity generation. If a company is rated as exposed, the entire enterprise value is reported in the portfolio.

$$\text{Exposure\_coal} = \sum_{n=1}^{\text{all long positions in PF with coal exposure}} (\text{PF\_weight}_n)$$

### Exposure to other fossil fuels

The percentage of companies whose business is associated with the oil and gas industry, especially reserves held, income from oil and gas transactions and energy generation. Companies that generate income from biofuels are not listed. If a company is rated as exposed, the entire enterprise value is reported in the portfolio.

$$\text{Exposure\_other\_fossils} = \sum_{n=1}^{\text{all long positions in PF with other fossil exposure}} (\text{PF\_weight}_n)$$

### Exposure to renewable energies

Renewable energy is energy that has been generated from natural sources or processes that are continuously renewed. The best-known types are wind, solar, geothermal, hydroelectric and biomass. If it is ascertained that a company generates income in connection with renewable energies (e.g. products, services, infrastructure projects that support the development, distribution or generation of renewable energies), the aggregation method should use a market-weighted average based on the company's income in the portfolio that meets the criteria.

$$\text{Exposure\_renewables} = \frac{\sum_{n=1}^{\text{all long positions in PF with renewable exposure}} (\text{Revenues\%\_renewables}_n \cdot \text{PF\_weight}_n)}{\sum_{n=1}^{\text{all long positions in PF with renewable exposure}} (\text{PF\_weight}_n)}$$

### Implied temperature rise

Implied temperature rise is a future-oriented metric indicating the extent to which a portfolio conforms to the global climate goals approved in Paris in 2015. Implicit temperature rise compares current and projected greenhouse gas emissions across all emission ranges with their share of the remaining global carbon budget that would allow global warming to be kept well below two degrees this century.

$$\text{Portfolio ITR} = \text{Base Temperature} + \frac{\sum_{n=1}^{\text{all long positions in PF with ITR}} (\text{TCRE} \cdot \text{Global\_Budget}_n \cdot \text{Financed\_Overshoot}_n)}{\sum_{n=1}^{\text{all long positions in PF with ITR}} (\text{Financed\_Budgets}_n)}$$

### Verified commitment to net zero

This metric indicates the percentage of companies that have one or several CO<sub>2</sub> reduction targets that have been confirmed by the Science Based Targets initiative (SBTi). The SBTi is a joint initiative of the CDP, UNGC, WRI and WWF that develops methods and criteria for effective climate-change mitigation in companies and validates corporate goals. It defines and promotes proven processes for reducing emissions and net zero targets in keeping with climate science. Net zero means that global greenhouse gas emissions must not exceed the capacity of natural and technological stores.

$$\text{Confirmed\_reduction\_target} = \frac{\sum_{n=1}^{\text{all long positions in PF with confirmed CO}_2 \text{ reduction target}} (\text{PF\_weight}_n)}{\sum_{n=1}^{\text{all long positions in PF with confirmed CO}_2 \text{ reduction target}} (\text{PF\_weight}_n)}$$

## Further information

### ESG integration

Our funds apply ESG integration (in the case of equity and bond funds). This involves characterising the sustainability of the instruments in the basic investment universe by giving them an ESG score of between 0 and 10. When the fund portfolio is assembled, the asset manager exceeds the ESG score of the basic investment universe, thus also lifting the investment fund's ESG score above that of the reference index.

### Active owner

Our funds apply both voting (in the case of equity funds) and engagement (in the case of both equity and bond funds). Voting (exercising of membership rights) and engagement (active dialogue with companies) have the medium- to long-term goal of bringing about improvements in corporate governance, in sustainable business operations and in the social, ethical and environmental responsibility of the companies, thereby achieving growth in shareholder value for the benefit of investors.

### Exclusion of ESG laggards

The companies with ESG ratings in the lowest bandwidths (B and CCC) are likewise excluded from the potential investment universe.

### Exclusion of business activities

The application of various ESG (Environment, Social, Governance) exclusion criteria enables us to proactively mitigate risks that may arise from controversial business activities. We thus focus on companies with greater resilience to long-term ESG risks of relevance to the sector. Thus issuers who fail to comply with defined standards or values closely related to the aims of sustainability are excluded.

### Risks

Investments in securities are subject to certain risks. The list of examples in the fact sheets is not exhaustive.

### Publications

Other publications on the subject of ESG can be found on our web page [www.zugerkb.ch/esg](http://www.zugerkb.ch/esg).

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

Signatory of:



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