

# ESG glossary

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| <b>Adult entertainment</b>                          | Companies involved in the production, distribution or retailing of adult entertainment products. An adult entertainment product is material in which “sexually explicit” behaviour is the predominant topic.   |
| <b>AMAS</b>   | The Asset Management Association Switzerland is an organisation that represents the Swiss asset management industry. One of its strategic priorities is strengthening and actively promoting Switzerland as a centre of sustainable asset management. <a href="http://www.am-switzerland.ch">www.am-switzerland.ch</a>   |
| <b>Best-in-class<br/>(Positive screening)</b>       | With this approach, companies are generally identified on the basis of ESG ratings, and the company with the best ESG scores in its peer group is selected. ESG ratings measure the resilience of a company to the long-term ESG risks of relevance to its industry.   |
| <b>CO<sub>2</sub> equivalents (CO<sub>2</sub>e)</b> | A unit of measurement for standardising the climate impact of the different greenhouse gases. Carbon dioxide (CO <sub>2</sub> ) is the main anthropogenic greenhouse gas caused by humans. Others include methane and nitrous oxide. These are expressed as CO <sub>2</sub> equivalents in terms of their contribution to global warming. The calculations are based on the global warming potential of each gas compared with CO <sub>2</sub> over a certain period. CO <sub>2</sub> e makes it possible to standardise certain greenhouse gases in a single unit and facilitates a comparison of their effects in terms of climate change. |
| <b>CO<sub>2</sub> footprint</b>                     | CO <sub>2</sub> intensity is a term used to describe the amount of greenhouse gas emissions contained in a portfolio. It is based on data from the past and does not give any indication of possible future development. As a unit of measure, tonnes of CO <sub>2</sub> per enterprise value (EVIC, Enterprise Value Including Cash) are expressed in millions of USD. This makes it possible to compare companies as a whole (equity and debt capital).  |
| <b>CO<sub>2</sub> intensity</b>                     | CO <sub>2</sub> intensity is a term used to describe the amount of greenhouse gas emissions contained in a portfolio. It is based on data from the past and does not give any indication of possible future development. The measurement unit “tonnes of CO <sub>2</sub> per USD million of revenues” is used in this context.   |
| <b>Controversial weapons</b>                        | Military weapons which do not make a distinction between military and civilian targets, are disproportionately damaging, or are prohibited worldwide. These include cluster munitions, land mines, anti-personnel mines, biological and chemical weapons, weapons with enriched uranium, blinding laser weapons, incendiary weapons, and weapons that use non-detectable fragments.  |
| <b>Conventional weapons</b>                         | Weapons armed with conventional explosives – i.e. that do not include atomic, biological or chemical components. These include battle tanks, artillery systems, armoured combat vehicles, combat helicopters and combat aircraft, as well as small arms.   |
| <b>Country-based exclusions</b>                     | Countries that systematically violate international standards and have therefore had United Nations Security Council trade sanctions imposed on them are excluded from the investment universe.  |

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| <b>Environmental (E in ESG)</b> | Covers themes such as climate change and energy efficiency, the promotion of renewable energies and biodiversity, and the reduction of environmental pollution.   |
| <b>ESG</b>                      | The term “ESG” has become established, particularly in the investment business. ESG stands for Environmental, Social and Governance. Investing in line with ESG criteria means taking opportunities and risks in the three areas mentioned into account when making investment decisions. Although there is no exhaustive list or generally binding definition of the topics and factors that can be summarized under this concept, it can be understood as the implementation of principles that promote environmentally friendly and sustainable development. |
| <b>ESG Controversies</b>        | This metric provides prompt and consistent evaluations of controversial situations in which the observed companies may be entangled. The assessment framework is compatible with internationally recognised standards. An overall assessment indicates whether a company’s business activity and/or products make it highly controversial, and how serious the social or environmental repercussions of the controversy in question actually are.   |
| <b>ESG integration</b>          | In this approach, the findings of traditional financial analysis are combined with the incorporation of ESG factors into the decision-making process.   |
| <b>ESG preferences</b>          | Establishing our clients’ ESG preferences allows us to ensure that these preferences are factored into investment decisions and investment choices.   |
| <b>ESG rating</b>               | A measure of the resilience of a company to long-term ESG risks of relevance to its industry (relative approach). The scale ranges from AAA (best rating) to CCC (lowest rating). Whereas companies with a high rating have their ESG risks and ESG opportunities under control and are therefore less exposed to potential risks, those at the bottom of the rankings do not have management processes in place for controlling these risks. As a rule, this is also generally reflected in long-term performance.   |
| <b>ESG score</b>                | The ESG score is the numerical counterpart to the ESG rating. This score can range from 0 up to 10 points. A detailed comparison can be found at <a href="http://www.zugerkb.ch/en/esg">www.zugerkb.ch/en/esg</a> .   |
| <b>Exclusion criteria</b>       | Companies that operate in controversial business spheres are excluded from the responsible investment universe. A fundamental distinction can be made between values-based exclusion criteria (tobacco, gambling, fossil fuels, etc.) and standards-based exclusion criteria (where the focus is on generally recognised international minimum standards).  |
| <b>Gambling</b>                 | Companies that own or operate gambling establishments or offer services in this field. Gambling is defined as the wagering or betting of stakes of money or valuables with a sense of risk and expectation of winning on the random outcome of a game or event.   |
| <b>Governance (G in ESG)</b>    | Encompasses measures to prevent corruption and bribery, and to ensure fair compensation of corporate bodies, diversity at senior management level, and the independence of control bodies.  |
| <b>Green bonds</b>              | Fixed-income bonds in which the funds generated by the issue are used to finance measures with specific environmental benefits (for example, projects in the fields of renewable energies, energy efficiency, local transport or water technology).   |
| <b>Greenwashing</b>             | Greenwashing occurs when a financial services company positions itself as sustainable both internally and externally (e.g. in social media, advertising, by publishing statements of support or in sustainability reports) but applies practices in its internal activities that contradict the image it is communicating.  |

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| <b>Impact investing</b>         | Investing with a view to achieving a tangible social and environmental impact, in addition to generating a financial return. Impact investments create a direct positive link to activities in society (microfinance, social impact bonds, green bonds, etc.)  |
| <b>Implied Temperature Rise</b> | Implied temperature rise 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°C, preferably to 1.5°C above the pre-industrial level.   |
| <b>Microfinance</b>             | Financial and banking services (loans, savings products, insurance) for low-income individuals or groups who would otherwise find it difficult or impossible to access financial services. Microfinance is an important component of development policy.   |
| <b>Norms-based exclusions</b>   | Exclusions of companies that violate internationally recognised norms and standards (e.g. human rights violations or corruption).  |
| <b>Nuclear energy</b>           | Generation of secondary energy by means of nuclear fission. The still unresolved issue of radioactive waste storage is a problem. In addition, a number of examples from the past show that reactor accidents can have devastating repercussions for both mankind and the environment. At a political level, the EU Commission has categorised nuclear energy (and fossil natural gas) as sustainable in the EU taxonomy under certain conditions. |
| <b>Nuclear weapons</b>          | Weapons whose explosive impact is based on nuclear fission or nuclear fusion, in contrast to conventional weapons. Nuclear weapons are counted as weapons of mass destruction.   |
| <b>Paris Agreement</b>          | At the Paris Climate Change Conference (COP 21) in December 2015 it was agreed by countries all around the world that global warming should be kept to well below 2° Celsius. 1.5° Celsius was agreed as the target.   |
| <b>Philanthropy</b>             | Philanthropic investments focus solely on the social or environmental return, and encompass any voluntary financial contribution for charitable purposes (including donations). The aim of generating a financial return is eschewed altogether.   |
| <b>Renewable energies</b>       | Energy generated from natural sources or processes that are continuously renewed. The best-known types are wind, solar, geothermal, hydroelectric and biomass.   |
| <b>Scope 1 emissions</b>        | Direct carbon dioxide emissions from sources owned or controlled by an institution, e.g. the burning of fossil fuels in factories or emissions from an institution's own vehicles.   |
| <b>Scope 2 emissions</b>        | Indirect carbon emissions connected with electricity consumed at an institution's facilities.  |
| <b>Scope 3 emissions</b>        | All other indirect emissions connected with the activities of company facilities but which are derived from sources that do not belong to (or are not controlled by) the institution, e.g. commuting and waste disposal. Scope 3 emissions are the most difficult to measure, and are therefore often excluded from comparisons.   |
| <b>SDG</b>                      | UN Sustainable Development Goals: the SDGs are a group of 17 interlinked global objectives designed to serve as the basis for a more sustainable future. Agreed through a resolution of the General Assembly of the United Nations, they are to be achieved by 2030.   |

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| <b>SFDR</b>                    | <p>Sustainable Finance Disclosure Regulation, an EU regulation on sustainability-related disclosure obligations in the financial services sector. It covers the publication of information of financial market participants in connection with the sustainability of their investment decisions. Among other things, it prescribes that financial products should be categorised according to the following typology:</p> <ul style="list-style-type: none"> <li>■ Article 6 funds essentially contain no sustainability criteria in their investment process.</li> <li>■ Article 8 funds promote environmental or social aspects ("light-green" products).</li> <li>■ Article 9 funds pursue an explicitly sustainable investment objective ("dark-green" products).</li> </ul> |
| <b>Social (S in ESG)</b>       | "Social" relates to working conditions such as the prohibition of child and forced labour, workplace safety and health, and the promotion of education and gender equality.  |
| <b>Social impact bonds</b>     | Securities whose proceeds are exclusively used to finance social projects (clean drinking water, sanitary facilities, etc.).   |
| <b>SRI</b>                     | An abbreviation that can stand for two different things: "sustainable and responsible investing", and "socially responsible investing". Both terms imply the incorporation of social and environmental criteria into the investment decision-making process.   |
| <b>SSF</b>                     | Swiss Sustainable Finance is an association for the promotion of sustainability in the Swiss financial centre, which is a leading player in the area of sustainable finance and advocates the transition to a sustainable and prosperous economy. <a href="http://www.sustainablefinance.ch">www.sustainablefinance.ch</a>   |
| <b>Sustainability</b>          | Guiding principle for commercial and environmental thinking and action. The UN World Commission on Environment and Development (better known as the Brundtland Commission) provided the following definition in 1987: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."   |
| <b>Thematic investing</b>      | An investment strategy in which a particular theme is pursued (renewable energies, water, gender equality, etc.). This approach focuses above all on companies that take into account ESG considerations in their decision-making process due to their specialisation in a specific area.  |
| <b>Thermal coal</b>            | Thermal coal is used as the key form of electricity production in large parts of the world, as it remains one of the cheapest sources of energy. However, due to its high carbon and sulphur content it is also one of the main contributors to greenhouse gas emissions and global warming.   |
| <b>Tobacco</b>                 | The exclusions for tobacco companies cover all parts of the supply chain (suppliers, producers, distributors, licensees, retailers).   |
| <b>Traditional investments</b> | The focus of traditional investments is the generation of an attractive financial return. ESG considerations are only taken into account to a limited degree, if at all.   |
| <b>UN Global Compact</b>       | An initiative created by the UN back in the year 2000. It is the world's largest initiative for Corporate Social Responsibility (CSR), and is geared around making globalisation fair as well as environmentally and socially acceptable. Signatories to the Global Compact support its ten principles in the areas of human rights, working standards, environmental protection, and the tackling of corruption. Ever since the adoption of Agenda 2030 for Sustainable Development, the signatories have also committed to the UN's 17 Sustainable Development Goals (SDGs). <a href="http://www.unglobalcompact.org">www.unglobalcompact.org</a>  |

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| <b>UN PRI</b>                                | United Nations Principles for Responsible Investment. UN PRI is the world's leading initiative for responsible investments. It is committed to promoting an understanding of the impact of ESG factors on investments and to supporting its international network of signatories with the incorporation of these factors in investment and ownership decisions. <a href="http://www.unpri.org">www.unpri.org</a> |
| <b>UN sanctions</b>                          | Countries that systematically violate international standards and have therefore had United Nations Security Council trade sanctions imposed on them are excluded from the investment universe.  |
| <b>Unconventionally produced oil and gas</b> | Unconventional energy sources include the likes of oil sands, shale oil, shale gas, and Arctic oil and gas. Unconventional oil or gas has to be extracted using unconventional methods (e.g. fracking), which give rise to significant financial, energy, and environmental costs.   |
| <b>Values-based exclusions</b>               | The exclusion of companies as potential investments due to the inadmissibility of their business activities for an investor (weapons, coal, tobacco, etc.).  |
| <b>Further information</b>                   | Other publications relating to the theme of ESG can be found on our website <a href="http://www.zugerkb.ch/en/esg">www.zugerkb.ch/en/esg</a> .   |

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

Signatory of:



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