

Exclusion criteria in the investment area

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.

Our approach

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.

Exclusion criteria	Direct investments	Investment funds
Norms-Based		
UN Global Compact	Result = «fail»	Fund share ≥ 3%
ESG controversies	Result = «red»	Fund share ≥ 3%
Controversial weapons	Sales share > 0%	Fund share ≥ 3%
Nuclear weapons	Sales share > 0%	Fund share ≥ 3%
Values-Based		
Conventional weapons	Sales share ≥ 5%	Fund share ≥ 8%
Thermal coal	Sales share ≥ 5%	Fund share ≥ 8%
Unconventional oil & gas	Sales share ≥ 5%	
Nuclear energy	Sales share ≥ 5%	Fund share ≥ 8%
Adult entertainment	Sales share ≥ 5%	Fund share ≥ 8%
Tobacco	Sales share ≥ 5%	Fund share ≥ 8%
Gambling	Sales share ≥ 5%	Fund share ≥ 8%
ESG rating	«B» or «CCC»	«B» or «CCC»
Country-Based		
UN sanctions	Result = «yes»	
Government ESG rating	«B» or «CCC»	

We distinguish between norms-based exclusions (exclusion of companies that violate internationally recognised norms and standards), values-based exclusions (exclusion of companies whose business activities are deemed inadmissible for an investor) and country-based exclusions (countries that systematically breach international standards).

Norms-based exclusions

The **United Nations Global Compact** is the world's largest initiative 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. The signatories have also committed to the UN's 17 Sustainable Development Goals (SDGs).

ESG Controversies supply prompt and consistent evaluations of controversial situations in which companies may be involved. 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 are.

Controversial weapons are understood to be military weapons which do not make a distinction between military and civilian targets, are disproportionately damaging, or are prohibited internationally. These include cluster munitions, land and anti-personnel mines, biological and chemical weapons, weapons with enriched uranium, blinding laser weapons, incendiary and fragmentation weapons.

In contrast to conventional weapons, the impact of **nuclear weapons** is based on nuclear fission or fusion. Nuclear weapons are counted as weapons of mass destruction.

Values-based exclusions

Conventional weapons is the term used to describe all weapons that are armed with conventional explosives – i.e. do not include atomic, biological, or chemical components. They include battle tanks, artillery systems and small arms.

Thermal coal serves as the main source of energy for electricity production in large parts of the world. However, due to its high carbon and sulphur content it is also one of the main contributors to greenhouse gas emissions and global warming.

The term **unconventional oil and gas** refers, for example, to oil sand, shale oil, shale gas, and Arctic oil and gas. Unconventional energy sources have to be extracted using unconventional methods (e.g. fracking), which give rise to significant financial, energy-related and environmental costs.

In the case of **nuclear energy**, the storage of the radioactive waste or the effects of reactor accidents continue to present the greatest challenge for people 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.

The **adult entertainment** sector comprises companies that are involved in the production, distribution or retailing of adult entertainment products.

The exclusions for **tobacco** companies cover all parts of the supply chain (suppliers, producers, distributors, licensees, retailers).

In the area of **gambling**, companies that own or operate gambling establishments or offer services in this field are excluded.

ESG rating and government ESG rating: Companies and states that have B or CCC ratings are also excluded from the investment universe. An MSCI ESG rating measures the resilience of a company to long-term ESG risks of relevance to its sector. 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 lower-ranked ones (ratings B and CCC) do not have such management processes in place.

Country-based exclusions

UN sanctions: 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.

Monitoring

The structured process ensures that the specified sustainability requirements are implemented at organisational level. Investment Controlling checks on a weekly basis that the requirements applicable to investment products are being complied with. In this way, possible breaches of ESG investment restrictions can be identified at an early stage. All checks and events are carefully documented and archived to ensure full transparency and verification of our monitoring measures at all times. Positions in breach of ESG requirements must be rectified within the six-month deadline. Investment Controlling checks on an ongoing basis that the decisions taken are being complied with. Twice a year, Investment Controlling carries out an end-to-end check on all mandates and investment funds.

Publications

Other publications on the subject of ESG can be found on our web page www.zugerkb.ch/en/esg.

We are signatories to or members of the following organisations

Signatory of:



Contact

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