

Exclusion criteria for investment funds

As the leading bank in the Zug economic region, we are aware of our responsibilities. We are future-oriented in the way we think and act. We integrate ecological and social aspects into our ambitious business goals. This helps us create lasting added value – for our stakeholders and for the environment.

Our approach

By applying various ESG exclusion criteria we deliberately reduce the risks that can arise through controversial business activities. Given a positive screening – based on the ESG rating – we additionally focus on companies with greater resilience to long-term ESG risks of relevance to the sector.






When selecting third-party funds, there are a number of differences compared to direct investments that need to be considered. The fund data used is comprised of aggregated values of the underlying individual assets. In addition, we also make a distinction with third-party funds as to whether a fund management company pursues its own ESG policy or not.

Investment funds with a proprietary ESG policy

We recognise that other fund management companies may apply their own ESG policy to their products, and that this may differ from our own position in this area. We therefore incorporate all investment funds which are categorised as Article 9 funds – as per the Sustainable Finance Disclosure Regulation (SFDR) – into our responsible fund universe. Any differences between the ESG policy of the fund management company and our own approach are irrelevant here.

Investment funds with no proprietary ESG policy

All other investment funds are reviewed according to our own selection approach and are incorporated into our responsible fund universe if they meet the various criteria. Here we apply the same exclusion criteria that we use for direct investments. In the absence of a look-through approach, the following exclusion criteria are applied in the case of investment funds.

Investment funds	Exclusion criteria
NORMS	
	UN Global Compact ESG controversies
	Fund share ≥ 3%
	Fund share ≥ 3%
WEAPONS	
	Controversial weapons Nuclear weapons Conventional weapons
	Fund share ≥ 3%
	Fund share ≥ 3%
	Fund share ≥ 8%
CLIMATE PROTECTION	
	Thermal coal Nuclear energy
	Fund share ≥ 8%
	Fund share ≥ 8%
SOCIETY	
	Adult entertainment Tobacco Gambling
	Fund share ≥ 8%
	Fund share ≥ 8%
	Fund share ≥ 8%
POSITIVE SCREENING	
	ESG rating
	Rating = "B" or "CCC"

Norms

The **United Nations Global Compact** was launched in 2000 at the initiative of the UN. It 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. Ever since the adoption of Agenda 2030 for Sustainable Development, the signatories have also committed to the UN's 17 Sustainable Development Goals (SDGs).

ESG controversy ratings supply prompt and consistent evaluations of controversial situations in which the observed companies may be entangled. The assessment framework is compatible with internationally recognised standards. The 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.

Weapons

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 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.

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.

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. For example, these include battle tanks, artillery systems, armoured combat vehicles, combat helicopters, and combat aircraft.

Climate protection

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. Thermal coal differs from coking coal, which has a higher energy content and releases fewer CO₂ emissions. This latter type of coal is primarily used in metal rather than electricity production.

Nuclear energy is obviously one of the most contentious forms of energy when it comes to ESG exclusions. The problem here is not so much the release of CO₂

emissions (other than in the construction of nuclear facilities), as these tend to be very low on the operational side, but rather the unresolved problem of radioactive waste storage. 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.

Society

Adult entertainment has a number of potential aspects that touch on unethical themes. For example, these include violation of respect for human dignity, sexual violence and discrimination, as well as links to organised crime (human trafficking and money laundering). As a result, the principles of the UN Global Compact are also violated to some extent.

Tobacco has considerable addiction potential and is harmful to health (lung disease, almost 10,000 deaths in Switzerland annually) in a way that impacts on public health systems as well as individuals. Studies show that the annual costs borne by the taxpayer in relation to tobacco consumption amount to some CHF 3 billion, to which a loss-of-income figure of CHF 833 million annually can be added according to the Federal Office of Public Health.

Gambling can likewise lead to addiction with significant financial consequences in a short space of time. However, surveys show that only a small proportion of the population is affected by this problem. One problematic aspect is the relative ease of accessing online gambling, for example. In 2021, 11 online casinos generated gross gaming revenues (the difference between money bet and money won by gamblers) of CHF 234 million in Switzerland. Over the same period, 21 physical casinos generated gross gaming revenues of CHF 406 million.

Positive Screening

In the next step, the remaining securities in the investment universe are broken down further according to their MSCI ESG ratings. The investment funds that end up in

the lowest bandwidths (ratings B and CCC) are likewise eliminated from the potential investment universe.

An MSCI ESG rating measures the resilience of the companies in the investment fund to long-term ESG risks of relevance to their 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, those languishing at the bottom of the rankings (the “laggards”) do not have management processes in place for controlling these risks. This typically therefore feeds through into long-term performance, with repercussions for aggregated fund performance.

Other asset classes

When putting together an investment portfolio, **government bonds** are key instruments in the asset allocation process due to their very high liquidity. Any government bonds affected by UN sanctions are automatically excluded from our investment universe. When the Swiss Confederation imposes sanctions, these are likewise always observed. Furthermore, the ESG rating must not be below BB.

Physical commodities (including gold) act as the fundament of our global economy. These are raw materials extracted from nature either for immediate

consumption or for industrial processing. Physical commodities cannot be analysed on the basis of their underlying assets in the same way as securities investments. Accordingly, ZugerKB decides on an individual basis whether or not a commodity investment product can be incorporated into its responsible investment universe.

Direct real estate funds also cannot be analysed on the basis of their underlying assets in the same way as securities investments. Accordingly, ZugerKB decides on an individual basis whether or not a real estate product can be incorporated into its responsible investment universe.

Cryptocurrencies and other crypto investments do not currently form part of our responsible investment universe. Further empirical data is required in this area to establish their suitability for investment purposes generally and in the light of ESG considerations in particular. However, as a member of the Swiss Blockchain Federation, Zuger Kantonalbank is driving forward the bank’s future in cryptocurrencies and other crypto investments.

Publications

Other publications relating to the theme of ESG can be found on our website.

Contact: esg-investments@zugerkb.ch

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