Statement on principal adverse impacts of investment decisions on sustainability factors

As referred to in Article 4 of Regulation (EU) 2019/2088

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Swisscanto
Asset Management
International S.A.

Swisscanto

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Summary

Swisscanto Asset Management International S.A. (LEI 5493007MXNV1316JL462) considers the principal adverse impacts on sustainability factors (hereinafter "PAIs"). For this purpose, the PAIs of investments made by managed funds are consolidated. This consolidation is based primarily on data for funds for which portfolio management has been delegated to Zürcher Kantonalbank (hereinafter "Portfolio Management").

This statement is the consolidated statement on principal adverse impacts on sustainability factors of Swisscanto Asset Management International S.A., covering the reference period from 1 January 2022 to 31 December 2022. The mandatory indicators in Annex I to Delegated Regulation (EU) 2022/1288 supplementing Regulation (EU) 2019/2088 (hereinafter "Annex I to Regulation (EU) 2019/2088") are used for this purpose.

Adverse sustainability indicator	**Adverse impact**
Greenhouse gas emissions	1. GHG emissions
	2. CO_2 footprint
	3. GHG intensity of investee companies
	4. Exposure to companies active in the fossil fuel sector
	5. Share of non-renewable energy consumption and production
	6. Energy consumption intensity per high impact climate sector
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas
Water	8. Emissions to water
Waste	9. Share of hazardous and radioactive waste
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
	12. Unadjusted gender pay gap
	13. Board gender diversity
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)
Environmental	15. GHG emission intensity
Social	16. Investee countries subject to social violations
Fossil fuels	17. Exposure to fossil fuels through investments in real estate
Energy performance	18. Exposure to energy-inefficient real estate assets

1. Description of the principal adverse impacts on sustainability factors

Table 1: Description of the principal adverse impacts on sustainability factors

	Indicators applicable to investments in investee companies				
Adverse sustainability impact		**Measured variable**	**Impact (year n)**	**Impact (year n-1)**	**Measures taken and planned**
Climate and other environment-related indicators					
Greenhouse gas emissions	1. GHG emissions	Scope 1 greenhouse gas emissions (tCO2e/mEUR)	158'126	N/A	Portfolio Management has set itself the target for 2020 of contributing to the Paris Agreement and achieving net zero emissions by 2050. To this end, most of Swisscanto (LU) fund portfolios' greenhouse gas emissions are reduced annually in line with the remaining carbon budgets published by the Intergovernmental Panel on Climate Change ("IPCC"). Swisscanto (LU) responsible funds follow a "well below" 2°C pathway, while all Swisscanto (LU) sustainable funds, with the exception of Swisscanto (LU) thematic funds, are on the more ambitious 1.5 °C pathway. Reduction targets are achieved through engagement and capital allocation. In the Swisscanto (LU) funds' portfolio management, dialogue is sought with companies with high emissions if, according to Portfolio Management, they do not take sufficient account of the impact of climate change on their business. Also supported in principle are shareholder proposals calling on companies to make preparations and plans to mitigate the risks of climate change.
		Scope 2 greenhouse gas emissions (tCO2e/mEUR)	53'394	N/A	
		Scope 3 greenhouse gas emissions (tCO2e/mEUR)	2'012'635	N/A	
	2. Carbon footprint	Carbon footprint (tCO2e/mEUR EVIC[1])	205.36	N/A	
	3. GHG intensity of investee companies	GHG emissions – Emission intensity – (tCO2e/mEUR turnover)	123.83	N/A	
		GHG emissions – Emission intensity – Scope 1, 2 and 3 (EUR)	675.85	N/A	
		GHG emissions – Scope 1 + 2 per EUR million enterprise value	19.52	N/A	
	4. Exposure to companies active in the fossil fuel sector	4. Share of investments in companies active in the fossil fuel sector	3.03%	N/A	

[1] EVIC – Enterprise Value Including Cash

	5. Share of non-renewable energy consumption and production	5a. CR Raw - Energy use - Coal/nuclear/unclear energy sources	50.79%	N/A	Portfolio Management primarily uses Swisscanto (LU) responsible and sustainable funds in the composition of the investment universe and the construction of the portfolio to ensure that the reduction pathway is adhered to in the allocation of capital. In addition, the Swisscanto (LU) funds' exclusion policy covers companies that extract or generate energy from non-renewable sources. For example, Swisscanto (LU) responsible funds exclude companies involved in coal mining or that own coal reserves. In Swisscanto (LU) sustainable funds, companies whose business model depends to a large extent on non-renewable fuels are generally excluded. Details of the specific exclusion policy including turnover thresholds will be published on our webpage: https://www.swisscanto.com/int/de/nachhaltigkeit/ausschlusskriterien.html
		5b. Non-renewable energy consumption	67.26%	N/A	
		5c. Non-renewable energy generation	1.12%	N/A	
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh[2] per million EUR of turnover of investee companies, per high impact climate sector (GWh/mEUR)	50.80%	N/A	
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	0.01%	N/A	After signing up to the Investor Statement on the Need for Biodiversity Impact Metrics in Q1 2020, Portfolio Management began working with engagement partner Sustainalytics on the development and launch of a biodiversity engagement programme. Initial engagement discussions were held with companies in 2022. Companies in critical and relevant industries are encouraged to record their impact on biodiversity loss, develop countermeasures and report transparently. The outcome of discussions is taken into account in the allocation of capital. Exclusion criteria are also applied in relation to biodiversity. For example, Swisscanto (LU) sustainable funds exclude companies involved in genetic engineering, unsustainable forestry and unsustainable fish farming.
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR	154.57	N/A	In relevant sectors, emissions to water are considered, for example, within the context of fundamental ESG integration using the PAI score and the underlying data point. Furthermore, the Portfolio

[2] GWh - Gigawatt hour

		invested, expressed as a weighted average			Management of many Swisscanto (LU) funds pursues thematic exposure to water in collaboration with external engagement partner Sustainalytics.
Waste	9. Share of hazardous and radioactive waste	Tonnes of hazardous and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	25.94	N/A	In relevant sectors, hazardous and radioactive waste are considered, for example, within the context of fundamental ESG integration using the PAI score and the underlying data point. In Swisscanto (LU) sustainable funds, companies that mine uranium or build or operate nuclear facilities are excluded from the investment universe.
Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters					
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0.17%	N/A	Portfolio Management's investment activities take into account the UN Global Compact (UNGC), the UN Guiding Principles on Business and Human Rights (UNGP) and the International Labour Organisation (ILO) Conventions. In the event of serious violations of these standards, Portfolio Management seeks dialogue with the company concerned as part of its engagement and calls on it to correct any shortcomings. If no improvement is made within a reasonable period of time, the company will be excluded from Swisscanto (LU) responsible funds. In the case of Swisscanto (LU) sustainable funds, serious violation leads directly to exclusion from the investment universe.
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complaints handling mechanisms to address violations of the UNGC	8.75%	N/A	Lack of processes and compliance mechanisms to monitor compliance with the UN Global Compact principles and OECD Guidelines are considered within the context of fundamental ESG Integration in Swisscanto (LU) funds using the PAI score and the underlying data point.

		principles or OECD Guidelines for Multinational Enterprises			
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	0.46%	N/A	The unadjusted gender pay gap is one aspect of Portfolio Management's ESG score and is therefore considered in putting together the Swisscanto (LU) sustainable products universe or in the ESG integration of Swisscanto (LU) responsible and sustainable funds. However, data coverage is currently very limited and only available in a few areas (e.g. UK and California).
	13. Board gender diversity	Average ratio of female to male board members at investee companies, expressed as a percentage of all board members	53.08%	N/A	Board gender diversity is one aspect of Portfolio Management's ESG score and is therefore considered in constructing the Swisscanto (LU) sustainable products universe or in the ESG integration of Swisscanto (LU) responsible and sustainable funds.
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0.00%	N/A	Companies involved in controversial weapons are excluded from the investment universes.
Indicators applicable to investments in sovereigns and supranationals					
Environmental	15. Emission intensity	GHG emission intensity of investee countries (tCO2e/mEUR GDP)	277.99	N/A	Portfolio Management has set itself the target for 2020 of contributing to the Paris Agreement and achieving net zero emissions by 2050. To this end, portfolio greenhouse gas emissions are reduced annually in line with the remaining carbon budgets published by the IPCC. Swisscanto (LU) responsible funds follow a "well below" 2 °C pathway, while all Swisscanto (LU) sustainable funds, with the exception of Swisscanto (LU) thematic funds, are on the more ambitious 1.5 °C pathway. In the composition of the investment universe and the construction of the portfolio, the reduction pathway is adhered to in the allocation of capital. In addition, the Swisscanto (LU) sustainable funds' exclusion

					policy includes countries that have not ratified the Paris Climate Agreement.
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	5.78 (total) 8.79% (relative)	N/A	Portfolio Management's proprietary Sovereign ESG Rating takes account of whether states have ratified the Universal Declaration of Human Rights and the Geneva Convention. Other indicators for measuring political stability and the level of democracy are also included in the evaluation. For Swisscanto (LU) responsible funds, this data is taken into account in constructing the portfolio. For Swisscanto (LU) sustainable funds, only states in the top third are considered in constructing the investment universe. Government bonds are also excluded if they are issued by countries on which Switzerland has imposed a comprehensive embargo on arms or repression goods due to a violation of international law, namely human rights.

2. Description of policies to identify and prioritise principal adverse impacts on sustainability factors

The Board of Directors of Swisscanto Asset Management International S.A. approved the sustainability strategy with the introduction of the SFDR in January 2021. Since then, both the Board of Directors and the Executive Board have been regularly involved in the further developments and orientations of the funds and corporate-level sustainability disclosures.

2.1 Method

The funds managed by Swisscanto Asset Management International S.A. consider adverse impacts on sustainability factors (principal adverse impacts, hereinafter "PAIs"). The mandatory indicators in Annex I to Delegated Regulation (EU) 2022/1288 supplementing Regulation (EU) 2019/2088 (hereinafter "Annex I to Regulation (EU) 2019/2088") are used for this purpose. Issuers who violate PAIs 7 (biodiversity), 10 (the UN Global Compact (UNGC)/OECD Guidelines for Multinational Enterprises) or 14 (controversial weapons involvement) receive a PAI score of zero. A PAI score is calculated from the remaining PAI indicators. Instruments from issuers with a score < 10 are not factored into the sustainable investments. The PAI score and underlying indicators are also taken into account in ESG Integration.

2.2 Governance

With Portfolio Management's delegation of the managed funds, implementation of the strategy has also been transferred to the delegates, who are responsible for specifying and implementing the strategy and have been contractually entrusted with this task.

2.3 Data sources

Adverse sustainability indicator	Adverse impact	Data source
Greenhouse gas emissions	1. GHG emissions	ISS
	2. Carbon footprint	ISS
	3. GHG intensity of investee companies	ISS
	4. Exposure to companies active in the fossil fuel sector	ISS
	5. Share of non-renewable energy consumption and production	ISS
	6. Energy consumption intensity per high impact climate sector	ISS
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	ISS
Water	8. Emissions to water	ISS
Waste	9. Share of hazardous and radioactive waste	ISS
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	MSCI ESG
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	ISS
	12. Unadjusted gender pay gap	ISS
	13. Board gender diversity	ISS
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	ISS
Environmental	15. GHG intensity	EDGAR
Social	16. Investee countries subject to social violations	ISS

3. Engagement policies

Investment stewardship is intended to promote sustainable business practices and compliance with recognised international principles and generally accepted ESG best practice standards. Within this framework, we support compliance practices and checks and balances principles, appropriate economic efficiency, stewardship for environmental and climate protection, biodiversity, circular economy, fair working practices and a non-discriminatory working environment, as well as human rights and other best practice ESG issues.

3.1 Engagement

Portfolio Management actively maintains ongoing dialogue with companies' management teams in accordance with the Swisscanto Engagement Guidelines. Engagement is focused on the principles of the UN Global Compact, climate change, biodiversity, circular economy, governance and transparency. Dialogue with Swiss companies is conducted by Portfolio Management and dialogue with foreign companies is delegated to Sustainalytics.

The engagement guidelines are available at: https://www.swisscanto.com/int/de/nachhaltigkeit/investment-stewardship.html.

The corresponding PAIs are shown in the table below.

3.2 Exercise of voting rights

The Management Company's exercise of voting rights is based on Swiss and international corporate governance rules, generally accepted ESG best practice standards and the UN's Principles for Responsible Investment (UN PRI). The voting conduct will be communicated in a timely and transparent manner at: swisscanto.com/voting. The relevant voting policy is available for inspection on this website. To exercise voting rights, the Management Company has commissioned an independent proxy adviser: Institutional Shareholder Services (ISS).

The voting policy is available at: https://www.swisscanto-fondsleitungen.com/de/investment-stewardship.html

The voting conduct is published at https://www.swisscanto.com/voting.

The corresponding PAIs are shown in the table below.

Table 2: Corrresponding PAI indicators for stewardship activities

PAI category	**PAI indicator**	**Type of stewardship**	**Measures if engagement does not reduce PAIs**
Climate change	1-6	Direct and indirect	Sale of all or some holdings
Biodiversity	7	Indirect	Sale of all or some holdings
Circular economy	8-9	Indirect	Sale of all or some holdings
UN Global Compact	10, 11	Direct and indirect	Sale of all or some holdings
Governance and transparency	12-13	Direct and indirect	Sale of all or some holdings

4. References to international standards

Corporate Social Responsibility (CSR) refers to companies' contribution to sustainable development for society and the environment (ESG). Portfolio Management supports corresponding memberships and initiatives by non-profit organisations or investor groups by signing up to these agreements. In principle, CSR initiators are responsible for coordinating and contacting the companies concerned. Depending on the content, aims and guidelines of the membership or initiative, topics are also addressed as part of one-to-one engagement and/or through investment activity guidelines. The duty to safeguard the interests and loyalty of the Swisscanto (LU) funds' investors is paramount.

Portfolio Management's ESG guidelines and ESG-integrated investment philosophy, which – taking Zürcher Kantonalbank's sustainability policy into account – are based on the 17 Sustainable Development Goals (SDGs), serve as the central pillars for deciding which CSR activities Portfolio Management is involved in. A decision-making process is followed by means of a structured questionnaire involving various stakeholders of Zürcher Kantonalbank to enable consistent decisions for initiatives and memberships that are congruent with the investment guidelines and sustainability policy.

4.1 United Nations Global Compact (UNGC)/OECD Guidelines for Multinational Enterprises

PAI 10: Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises

PAI 11: Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises

The managed funds' investment policy takes into account the United Nations Global Compact (UNGC) and the OECD Guidelines for Multinational Enterprises. The UN Guiding Principles on Business and Human Rights (UNGP) and the International Labour Organization (ILO) Conventions are also considered. Serious violations of these standards result in any relevant sustainable investments made by the issuer being excluded and serving as the basis for the exclusion policy.

Methodology and data

According to the EU regulation, checks should be done on the basis of the following standards:

- United Nations Global Compact
- OECD Guidelines for Multinational Enterprises
- UN Guiding Principles on Business and Human Rights
- Declaration of the International Labour Organisation on Fundamental Principles
- Rights at Work and the International Bill of Human Rights.

ISS and MSCI ESG data are used to check whether a violation has occurred and whether the company has processes in place to adequately address any relevant violations. If both points are not given, the company fails the quantitative minimum safeguard test.

4.2 Paris Climate Agreement

PAI 1-6 (Greenhouse gas emissions)

In 2020, Portfolio Management set itself the target of reducing CO_2e emissions from actively managed assets from traditional asset classes by at least 4% per year compared with the 2019 investment universe. As this reduction is based on carbon intensities, it requires additional compensation for economic growth. Swisscanto (LU) responsible funds are aimed at achieving the below 2°C climate target in accordance with the Paris Agreement. This requires a reduction in carbon intensity of at least 4% per year plus economic growth. With the exception of) thematic funds, sustainable funds pursue the more ambitious 1.5 °C climate target, which requires a reduction in CO_2e intensity of at least 7.5% per year plus economic growth. Swisscanto (LU) sustainable funds therefore meet the requirements of the Net Zero Asset Manager Initiative, which Portfolio Management signed up to in July 2021.

The reduction target is achieved through engagement and capital allocation. While some CO_2e reductions will be made in the market itself, the extent and pace of these reductions are unlikely to be enough to ensure compliance with the Paris Climate Agreement. By engaging in active dialogue with company management teams, Portfolio Management works to ensure that companies set ambitious and measurable sustainability targets. It also manages investments by means of capital allocation. This means the proportion of carbon-intensive companies and countries that do not have a strategy for cutting CO_2e emissions is reduced in the portfolio in favour of carbon-efficient companies and those with ambitious reduction targets. The risks associated with emissions-intensive activities are reduced and opportunities for returns offered by climate-friendly future technologies are exploited.

Methodology and data

Greenhouse gas emissions need to be reduced by 4% per year to achieve the 2°C target and 7.5% per year to achieve the 1.5°C climate target. The following methodology describes how the climate target is implemented in active strategy portfolios. For each portfolio, a maximum CO_2e intensity is defined at the applicable time, which can be calculated from the average carbon intensity of the benchmark as at end-2019, the CO_2e reduction target and global economic growth.

On the basis of the international Greenhouse Gas Protocol (GHG Protocol) standard, emissions data from reputable external data providers are used. By standardising the CO_2e emission, a comparable measurement is obtained for all corporate investments. Companies' direct and indirect emissions are taken into account, referred to as Scope 1 and Scope 2 in the GHG Protocol. Only emissions data documentation from upstream and downstream parts of the value chain (Scope 3) is not currently provided for in the GHG Protocol due to insufficient data availability and quality. While this data is incorporated into fundamental analysis, it is not part of the quantitative reduction pathway. For sovereign investments, the official European Commission database ("EDGAR"), which provides CO_2e emissions data for all states, is used. To ensure comparability between countries, CO_2e emissions are divided by gross domestic product ("GDP").

4.3 Biodiversity

PAI 7 (Biodiversity)

In its work with companies, Portfolio Management is committed to ensuring that they protect biodiversity and publish relevant data in company risk assessment reports. Portfolio Management has been working with the Taskforce for Nature Related Financial Disclosure (TNFD) since 2021.

After signing up to the Investor Statement on the Need for Biodiversity Impact Metrics in Q1 2020, Portfolio Management began working with its engagement partner Sustainalytics on the development and launch of a biodiversity engagement programme. Initial engagement discussions were held with companies in 2022. Companies in critical and relevant industries are encouraged to record their impact on biodiversity loss, develop countermeasures and report transparently. The outcome of discussions is taken into account in the allocation of capital.

Biodiversity exclusion criteria are also applied in various managed funds. For example, Swisscanto (LU) sustainable funds exclude companies involved in genetic engineering, unsustainable forestry and unsustainable fish farming.

Methodology and data

ISS and MSCI ESG data are used. Insights from engagement discussions are also a fundamental part of the investment process.

5. Historical comparison

The earliest historical comparison will be provided in 2024.