

# Sustainable investing requires transparency

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Many people are worried about the impact of their actions on the environment and society. They want to contribute to sustainable development and therefore buy regional and seasonal organic food, separate their waste, or use public transport. What many do not know: You can also make a positive difference with your financial investments. By directing their assets towards sustainability, investors can make a positive contribution to society and the environment and at the same time achieve a long-term increase in financial value.

The good news is that interest in sustainable investing is definitely existing, according to the current Schroders Global Investment Study 2021\*. The study documents statistically that 57% of respondents have a positive attitude towards switching to a sustainable portfolio, 37% are neutral and only 6% are negative. Despite positive attitudes, only few invest sustainably. This is because they often lack the necessary information. For many investors, especially private investors, it is usually not obvious whether they hold shares of companies in their portfolio that promote sustainable development with their products, or whether exactly the opposite is the case. We are convinced: if people see in black and white what effect their financial investment has, they will be willing to act.

## LGT Sustainability Rating – Transparency at a glance

In order to eliminate the information deficit regarding the sustainability of financial investments, we have developed the LGT Sustainability Rating, which we use to evaluate equities, bonds, funds and exchange traded funds (ETFs). At a glance, the rating makes transparent to our clients how environmentally and socially responsible investments are and supports them in the sustainable orientation of their portfolio. To determine the LGT Sustainability Rating of equities,

the sustainability of the respective company and, in the case of bonds, the sustainability of the underlying issuer (company, country or supranational organisation) is assessed. The sustainability rating is carried out using an analysis tool developed by LGT, the so-called ESG Cockpit. This has been successfully in use since 2009. Company- and country-specific raw data from six renowned providers of sustainability data is assessed in the process. The result of this quantitative assessment process is a rating ranging from one star (insufficient) to five stars (excellent).

## Availability of ESG data at a solid level

In recent years, the availability of ESG data has improved significantly, both in terms of breadth and depth of coverage. In terms of ESG data on companies, we now have key figures and information on a large number of companies. These range from data such as CO<sub>2</sub> emissions, to information on health and safety standards, to data on negative incidents such as cases of corruption. In addition, we have information that shows the impact of companies' products and services on people and the environment. However, the quantity of data alone is not enough. A key issue is data quality. The data must be of high quality so that reliable conclusions can be drawn. In this regard, a lot has happened in recent years. For our rating process, we always select the source that provides us with the best data quality. Nevertheless, we do not rely blindly on the data, but carry out regular plausibility checks.

### What are ESG criteria?

ESG is the abbreviation for Environmental, Social, Governance. The so-called ESG criteria have established themselves internationally and are used by investors in the context of sustainability assessments to analyse whether and to what extent companies, states or organisations take into account ecological and social aspects as well as the principles of good corporate or governmental governance in their decisions and actions.

\* Schroders Global Investment Study 2021, for which 23 000 investors worldwide were surveyed.

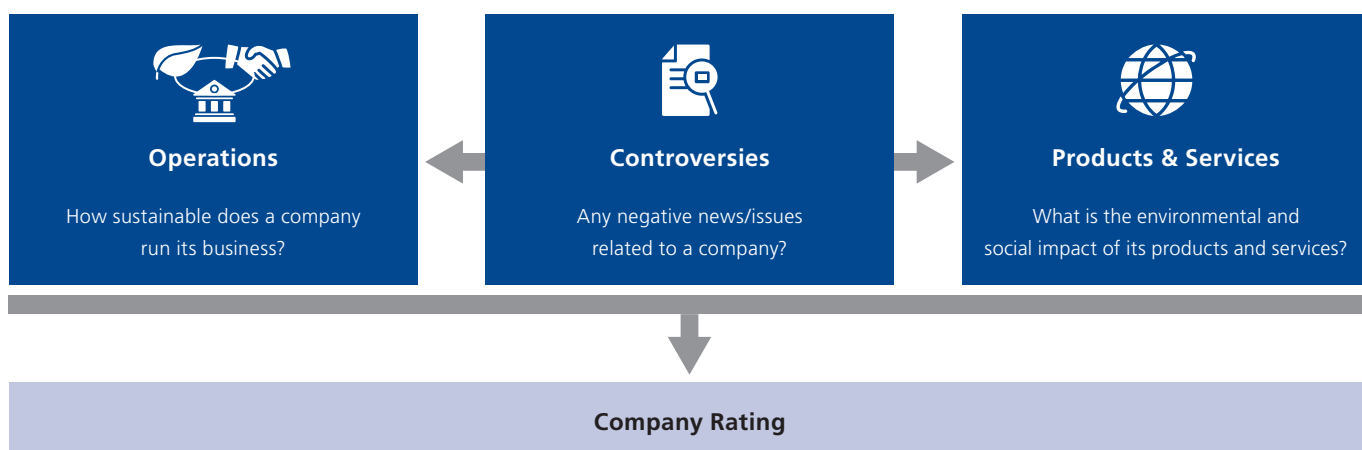
### Comprehensive sustainability assessment of companies

We analyse the sustainability of companies according to a comprehensive process, which takes into account three elements: operational business, impact of products & services and controversies.

- **Operational business:** The evaluation of the operational business assesses how environmentally and socially responsible a company conducts its business. This is done using criteria from the environmental (E), social (S) and governance (G) areas, the so-called ESG criteria. In the environmental area, for example, the level of greenhouse gas emissions and the water and energy consumption of a company are rated. In the social area, working conditions and the treatment of minorities play a role, among other things. In governance, for example, we pay attention to the strategic anchoring of sustainability goals. The weighting of the ESG criteria follows the principle of materiality and is tailored to the respective industry.
- **Impact of products and services:** This analyses the impact – positive or negative – that a company's products and services have on people and the environment. The impact assessment is based on the 17 United Nations Sustainable Development Goals (UN SDGs). For each company, we determine to which extent its products and services contribute positively or negatively to the achievement of these 17 goals. For example, wind energy helps our climate by reducing CO<sub>2</sub> emissions. It thus makes a positive contribution to Goal 13, "Climate action". In contrast, the products of tobacco companies or fast-food manufacturers have a massively negative effect on health and thus counteract Goal 3, "Health and well-being".
- **Controversies:** Controversies are any negative incidents that occur in connection with a company's business/production or the use of its products/services. For example, serious environmental damage may occur during production because a company discharges toxic wastewater into rivers. Or the products of a drug manufacturer have massively harmful side effects.

Based on the analysis of the operational business, the contribution to the 17 Sustainable Development Goals and any controversies, we calculate the LGT Sustainability Rating and thus achieve a comprehensive assessment of the sustainability of companies.

### Three elements assessed for LGT Sustainability Rating of companies



### Impact of products and services decisive for stock selection

The so-called impact of products and services plays a decisive role in the sustainability rating of companies. Since March 2020, this impact analysis has been an important element in determining the LGT Sustainability Rating of companies. The management of our sustainable investment solutions also focuses on this company-specific impact. Thus, the impact of all portfolio companies on the 17 goals is assessed with the intention of achieving a positive overall contribution of the portfolio to the 17 goals. For this purpose, the portfolio managers focus on companies whose aggregate contribution of their products and services to the 17 goals is positive. Whenever possible, we make sure to include companies in the portfolio that contribute to such goals, which have so far been underrepresented or hardly represented in the portfolio. The analysis of the company-specific impact also enables us to set the investment focus on specific SDGs in customised portfolio solutions according to the client's wishes.

### Outlook regarding transparency

As far as the future availability of sustainability data and information is concerned, one can be optimistic. Support is coming from initiatives in the Swiss financial centre and at the EU level. The financial industry will have to fulfil far-reaching disclosure obligations and is working on creating increased transparency regarding the sustainability-related opportunities and risks of financial instruments. The information situation for investors will therefore continue to improve so that they can make well-founded investment decisions on the sustainable composition of their portfolios in the future. This means that investors have the power to set the course for their investments.

### LGT – professional partner for sustainable investing

LGT has been working intensively on the topic of sustainable investing for more than ten years. An important goal of our Sustainability Strategy 2025 is to substantially increase the share of sustainable investments in our clients' portfolios. We want to achieve this by offering a diverse range of sustainable investment solutions and services.

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### The 17 Sustainable Development Goals of the United Nations

- The 17 Sustainable Development Goals (SDGs) form the core of the 2030 Agenda
- This global agenda was launched by the United Nations in 2015 to promote sustainable peace and prosperity and protect our planet and was adopted by all member states
- Since then, the 17 goals commit countries and companies alike to contribute to sustainable development
- In recent years, the 17 goals have also become an important framework for sustainability-oriented investors



Our intermediary clients will be able to benefit even more comprehensively from our offering and our many years of expertise in sustainable investing in the future. To this end, we will launch an extensive service package this year, which will enable our External Asset Managers to offer their clients sustainable portfolio solutions and at the same time be prepared for the far-reaching regulatory initiatives.

The LGT offering for intermediary clients will include the following services:

- Creating transparency by providing sustainability ratings and analyses
- Access to research content and investment ideas in the area of sustainability
- Sustainability reporting as part of the statement of assets
- Knowledge transfer on the topics of sustainability and sustainable investment
- Support with regulatory issues, such as the requirements of the Sustainable Finance Disclosure Regulation (SFDR)

Right at the beginning of 2022, we are launching the **“Fit for Sustainability”** series of events specially developed for our intermediary clients, in which internal and external specialists will shed light on exciting topics related to sustainability and

sustainable investing. We will start **on 27 January with the topic “Net Zero”**. Here we will show what “Net Zero” means in practice and how it can be implemented. In addition to the virtual and physical “Fit for Sustainability” events, we will regularly provide further interesting insights into sustainable investing and current developments in our “LGT Newsletter”.

We are convinced that – regardless of the business model in which one operates – the sustainable allocation of assets will play an increasingly important role. As a professional partner, LGT would like to provide the best possible support in this respect. We would be pleased to offer you the opportunity to evaluate a specific portfolio regarding sustainability. We are looking forward to hearing from you if you are interested.



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