

# Exclusion criteria to avoid controversies

## Swiss edition

Sustainability is our conviction. That's why we have created framework conditions for environmentally and socially responsible investing and apply exclusions in our sustainable Swisscanto fund range in traditional asset classes to avoid controversies. Our funds are classified into the two sustainability characteristics "Responsible" and "Sustainable".

Depending on the sustainability characteristics, investments in companies and governments whose activities contribute to the world's greatest environmental problems and/or social risks or involve risks in corporate governance, i.e. those that are involved in controversial business practices, are excluded to varying degrees. For us, the most critical problem areas currently include<sup>1</sup>:



### Threat to society and health

Based on social criteria, this covers governments and companies, which pose a fundamental threat to people and a peaceful coexistence.



### Climate change

The greenhouse effect resulting from human activity, mainly as a consequence of the combustion of fossil fuels and changes in land use and exacerbated by the natural greenhouse effect, is considered to be the main cause of advancing climate change. With our investments, we endeavor to take this into account.



### Declining biodiversity

Besides climate change, the decline in biodiversity is seen as a critical global environmental threat that we want to consider in our investments.

The exclusion criteria are constantly adapted to new findings and social standards. They are therefore regularly checked for currency as well as the development in the corresponding areas. In this process, data from independent third parties is used, which is subjected to an additional qualitative plausibility check. Sources include: MSCI ESG Research and the World Bank.

## Exclusion criteria based on SVVK-ASIR

In all of our fund assets under management in the traditional asset classes – both active and passive – exclusion criteria based on the Swiss Association for Responsible Investments (SVVK-ASIR) are applied. These exclusion criteria predominantly eliminate manufacturers of controversial weapons (such as anti-personnel mines, cluster munitions and nuclear weapons not permitted by the Nuclear Non-Proliferation Treaty). In addition, government bonds from states<sup>2</sup> recom-

mended for exclusion by SVVK-ASIR can also be excluded. The fund's asset manager reserves the right to exclude additional companies or to waive an exclusion at its own discretion.

## Exclusion criteria based on SVVK-ASIR<sup>3</sup>



- Cluster bombs and ammunition
- Anti-personnel and landmines
- Biological and chemical weapons
- Nuclear weapon systems\*
- Nuclear weapon material\*
- Enriched uranium\*
- Blinding laser weapons
- Incendiary weapons
- Behavioral exclusions and
- ▶ violation of international law

Controversial  
weapons  
manufacturer

### Exclusion criteria to avoid controversies

→ Exclusion criteria for companies ▶ Exclusion criteria for states

\* Only in the case of proliferation contrary to the Non-Proliferation Treaty (NPT)

## Responsible characteristics

In the case of the Responsible characteristics, we supplement the exclusion criteria based on SVVK-ASIR with additional criteria and thereby exclude other companies with ESG-critical business models. In addition to manufacturers of military technology, weapons and ammunition, this also includes producers of pornography, exploitative child labour, the extraction of coal (> 5% of revenue; excluding metal production) and companies with coal reserves (excluding metal production). In the case of the latter two exclusion criteria, investments may, by way of an exception, be made in green or sustainability bonds of the companies in question. In the case of a green bond and a sustainability bond, the issuer must use the financial resources raised through the issue of the green or sustainability bond for the specified purpose<sup>4</sup>. In the event of potential violations by companies of the UN Global Compact Principles (United Nations standard on human and labour rights, environmental standards and anti-corruption) identified by the screening process, the fund's asset manager seeks dialog as part of the engagement process and encourages

<sup>1</sup> The specific implementation of the exclusions for the individual product lines can be found in the overview on page 3.

<sup>2</sup> The following countries are currently excluded: Afghanistan, Belarus, Iran, Libya, Myanmar, North Korea, Russia, Sudan, South Sudan, Syria, Venezuela, Zimbabwe.

<sup>3</sup> The sole application of these exclusion criteria is not considered a sustainability approach.

<sup>4</sup> Green bonds are used to raise capital for specific activities to reduce or prevent negative impacts on the environment. Sustainability bonds are also used to raise capital for specific activities to reduce or prevent negative impacts on the environment, as well as to raise capital for specific activities to reduce or prevent negative impacts on society. Investments in green or sustainability bonds thus contribute to a positive change with regard to the respective exclusion criterion.

companies to change their behavior. If no change in behaviour occurs within a reasonable period of time, existing investments will be sold basically.

#### Additional exclusion criteria for Responsible\*



- Production of weapons and ammunition
- Production of military hardware (> 5% revenue)
- UN Global Compact violations
- Exploitative child labour
- Production of pornography



- Extraction of coal (> 5% revenue, excluding metal production)\*\*
- Coal reserves (excluding metal production)\*\*

→ Exclusion criteria for companies ▶ Exclusion criteria for states

\* Exclusion criteria in addition to the exclusion criteria based on SVVK-ASIR

\*\* Green and sustainability bonds excluded

#### Sustainable characteristics

Within our product range, the funds with a sustainable characteristic have the highest degree of sustainability. By focusing investments on companies and states that contribute significantly to one or more of the 17 Sustainable Development Goals (SDGs) of the United Nations (UN) through their sustainable business model, we aim to achieve a return in line with social benefits.

The exclusion criteria are even more extensive than for the Responsible solutions. The tolerance thresholds for the companies are strict and usually amount to zero percent of sales. This includes companies that use genetic engineering in the field of human medicine. Companies involved in embryo research and those conducting ethically unacceptable therapeutic cloning in human stem cell research or those applying germ pathogen therapies are also covered by the exclusion criteria. Producers of genetically modified plants, animals or micro-organisms that are actively released into the environment are also included in the exclusion criteria. In the production of automobiles, companies with a comprehensive transition strategy for the use of alternative climate-friendly drive systems are not excluded.

Within the Sustainable characteristics, government bonds from those countries which fail to respect fundamental human rights or environmental standards are additionally excluded. With regard to the threat to society and health, the degree of democracy and freedom in the individual countries is an important criterion. We use Freedom House's Freedom Index<sup>5</sup> to determine this. The indicator uses various parameters – namely free elections, freedom of expression and religion, freedom of assembly, equality before the law and guaranteed property rights – to determine the relevant liberties in the respective sovereigns. Countries that are considered “not free” are excluded from investments. In addition, sovereigns with a high perceived level of corruption in the public sector are excluded. This is determined using Transparency International's Corruption Perceptions Index<sup>6</sup>, which lists countries according to the degree to which corruption is perceived among public officials and politicians. Sovereigns with a value below 35 according to

the Corruption Perceptions Index are excluded accordingly. In our view, the use of the death penalty is also incompatible with human rights. Accordingly, we do not invest in government bonds that conduct this ethically, criminally and practically controversial practice. Likewise, government bonds that use more than four percent of their gross domestic product (GDP) for military spending are not part of the Sustainable investment universe. Furthermore, government bonds are excluded, that have more than 50 percent nuclear energy in their electricity mix and are also planning to expand their use of nuclear energy. Sovereigns that have not ratified the Paris Agreement on Climate Change, the Nuclear Non-Proliferation Treaty and/or the Convention on Biological Diversity (CBD) for the protection of biodiversity are also excluded. Strict exclusion criteria for companies and states ensure that investments are made responsibly and ethically. In addition, exceptions for purpose-driven green and sustainability Bonds allow targeted investments in climate-friendly technologies and biodiversity protection to support the necessary transition.

#### Additional exclusion criteria for Sustainable\*



- Production of military hardware
- Operation of nuclear facilities\*\*
- Uranium extraction
- Manufacture of nuclear reactors\*\*
- Genetic engineering: Human medicine
- Manufacture of tobacco and smokers' accessories
- Production of alcohol (> 5% revenue)
- Gambling (> 5% revenue)
- Intensive livestock farming
- ▶ Low level of democracy and freedom\*\*
- ▶ Use of the death penalty\*\*
- ▶ Particularly high military budget (> 4% of GDP)\*\*
- ▶ Expansion of nuclear energy (total share > 50%)\*\*
- ▶ Corruption (corruption perception index < 35)\*\*
- ▶ States that have not signed the Non-Proliferation Treaty\*\*



- Extraction of coal and coal reserves\*\*
- Operation of fossil power plants (> 5% revenue)\*\*
- Exploitation of natural gas\*\*
- Exploitation of oil\*\*
- Conventional car manufacturers without a comprehensive transition strategy for using alternative, more climate-friendly drive systems\*\*
- Manufacture of aircraft\*\*
- Airlines\*\*
- Cruise ship operators\*\*
- ▶ Sovereigns that have not ratified the Paris Climate Agreement\*\*



- GMOs<sup>7</sup> in agriculture\*\*
- Non-sustainable fishing and fish farming\*\*
- Non-sustainable forestry\*\*
- Non-certified palm oil (RSPO < 50%)
- ▶ Sovereigns that have not ratified the Convention on Biological Diversity (CBD)\*\*

→ Exclusion criteria for companies ▶ Exclusion criteria for states

\* Exclusion criteria in addition to the exclusion criteria based on SVVK-ASIR and the exclusion criteria for the Responsible characteristics

\*\* Green and sustainability bonds excluded

<sup>5</sup> freedomhouse.org

<sup>6</sup> transparency.org

<sup>7</sup> Genetically modified organisms

## Overview of exclusion criteria in Swisscanto funds<sup>8</sup>

Sustainability characteristics	Traditional (not sustainable)	+	Responsible <sup>11</sup>	+	Sustainable
 Endangering society and health	based on SVVK-ASIR <sup>9</sup> <ul style="list-style-type: none"> <li>→ Controversial weapons manufacturer:</li> <li>→ Cluster bombs and cluster munitions</li> <li>→ Anti-personnel and landmines</li> <li>→ Biological and chemical weapons</li> <li>→ Nuclear weapon systems<sup>10</sup></li> <li>→ Nuclear weapon material<sup>10</sup></li> <li>→ Enriched uranium<sup>10</sup></li> <li>→ Blinding laser weapons</li> <li>→ Incendiary weapons and</li> <li>▶ Behaviour-based exclusions</li> </ul>		<ul style="list-style-type: none"> <li>→ Production of weapons and ammunition</li> <li>→ Production of military hardware (&gt; 5% revenue)</li> <li>→ UN Global Compact violations<sup>12</sup></li> <li>→ Exploitative child labour</li> <li>→ Production of pornography</li> </ul>		<ul style="list-style-type: none"> <li>→ Production of military hardware</li> <li>→ Operation of nuclear facilities<sup>13</sup></li> <li>→ Uranium extraction</li> <li>→ Manufacture of nuclear reactors<sup>13</sup></li> <li>→ Genetic engineering: Human medicine</li> <li>→ Manufacture of tobacco and smokers' accessories</li> <li>→ Production of alcohol (&gt; 5% revenue)</li> <li>→ Gambling (&gt; 5% revenue)</li> <li>→ Intensive livestock farming</li> </ul> <ul style="list-style-type: none"> <li>▶ Low level of democracy and freedom<sup>13</sup></li> <li>▶ Use of the death penalty<sup>13</sup></li> <li>▶ Particularly high military budget (&gt; 4% of gross domestic product)<sup>13</sup></li> <li>▶ Expansion of nuclear energy (total share &gt; 50%)<sup>13</sup></li> <li>▶ Corruption (corruption perception index &lt; 35)<sup>13</sup></li> <li>▶ Nuclear Non-Proliferation Treaty not ratified<sup>13</sup></li> </ul>
 Climate change			<ul style="list-style-type: none"> <li>→ Extraction of coal (&gt; 5% revenue, excluding metal production)<sup>13</sup></li> <li>→ Coal reserves (excluding metal production)<sup>13</sup></li> </ul>		<ul style="list-style-type: none"> <li>→ Extraction of coal and coal reserves<sup>13</sup></li> <li>→ Operation of fossil power plants (&gt; 5% revenue)<sup>13</sup></li> <li>→ Exploitation of natural gas<sup>13</sup></li> <li>→ Exploitation of oil<sup>13</sup></li> <li>→ Conventional car manufacturers without a comprehensive transition strategy for using alternative, more climate-friendly drive systems<sup>13</sup></li> <li>→ Manufacture of aircraft<sup>13</sup></li> <li>→ Airlines<sup>13</sup></li> <li>→ Cruise ship operators<sup>13</sup></li> </ul> <ul style="list-style-type: none"> <li>▶ Paris Climate Agreement on climate change not ratified<sup>13</sup></li> </ul>
 Declining in biodiversity					<ul style="list-style-type: none"> <li>→ GMOs in agriculture<sup>13</sup></li> <li>→ Non-sustainable fishing and fish farming<sup>13</sup></li> <li>→ Non-sustainable forestry<sup>13</sup></li> <li>→ Non-certified palm oil (RSPO &lt; 50%)</li> </ul> <ul style="list-style-type: none"> <li>▶ Convention on Biological Diversity not ratified (CBD)<sup>13</sup></li> </ul>

→ Exclusion criteria for companies ▶ Exclusion criteria for states

<sup>8</sup> In exceptional cases, exclusion criteria may not be taken into account in consideration of investor interests, e.g. in the case of indirect investments. On the other hand, other issuers may be excluded for reasons of risk or reputation, for example.

<sup>9</sup> Exclusion criteria based on SVVK-ASIR mainly concern manufacturers of prohibited weapons and behaviour-based exclusion criteria for companies also include states, against which Switzerland has imposed a comprehensive arms or repressive goods embargo.

<sup>10</sup> Only in the case of proliferation contrary to the Non-Proliferation Treaty (NPT).

<sup>11</sup> There are different exclusion criteria for direct and indirect real estate in the Responsible approach.

<sup>12</sup> United Nations standard on human rights, labour rights, environmental standards and anti-corruption. UN Global Compact violations are reviewed again in detail. As part of the engagement, we seek dialogue and encourage companies to change their behaviour. If no change occurs within a reasonable period of time, existing investments must be sold.

<sup>13</sup> Exclusion criterion can be overwritten for green and sustainability bonds.

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