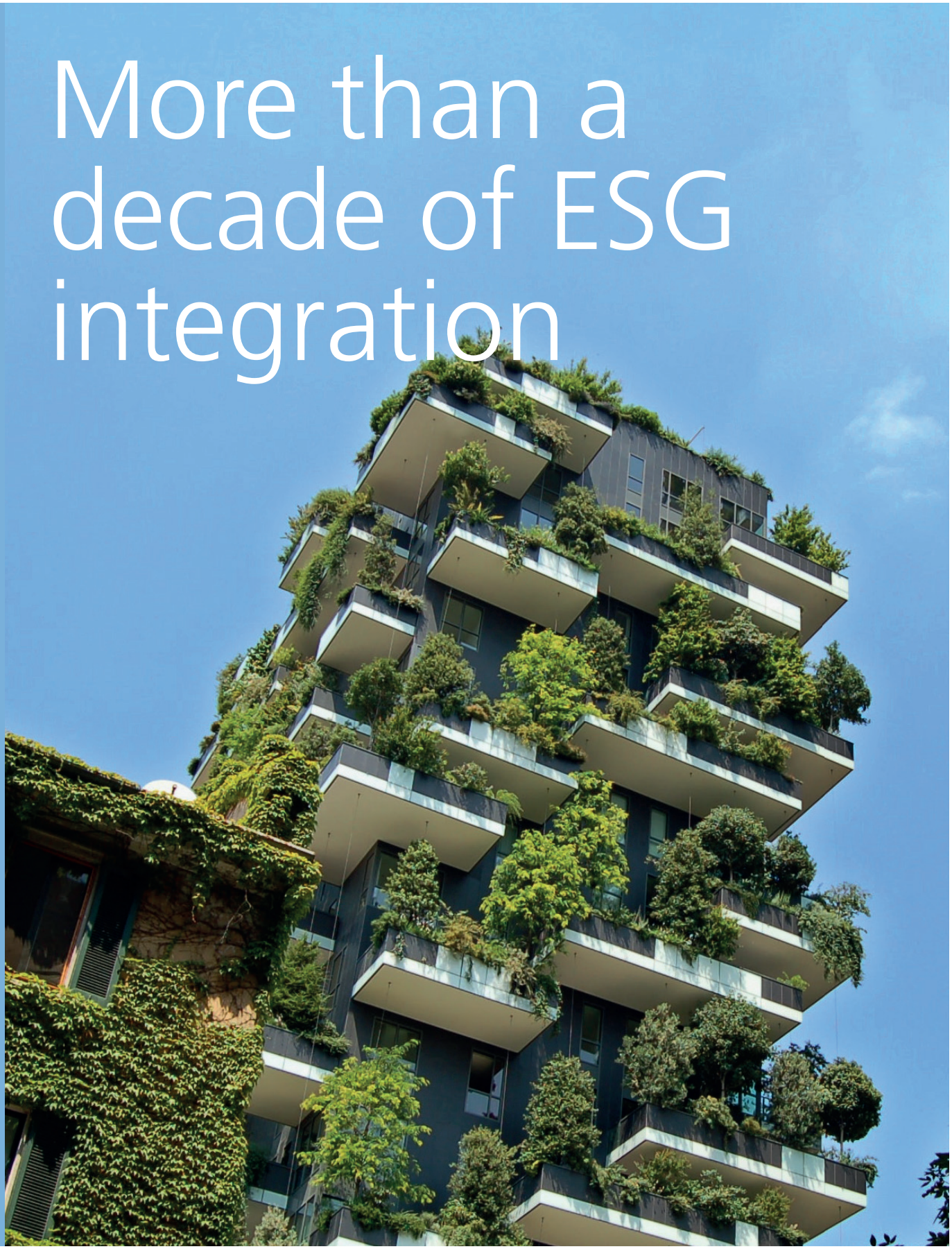
LGT Capital Partners
your partner for alternative investments

More than a decade of ESG integration



"The great advantage of the rapid development in ESG is that there is a constant flow of information regarding new ideas and concepts."

Tycho Sneyers, Managing Partner, chairman of LGT Capital Partners' ESG Committee and PRI board member

Front cover: Ormat, geothermal plant, Nevada, United States

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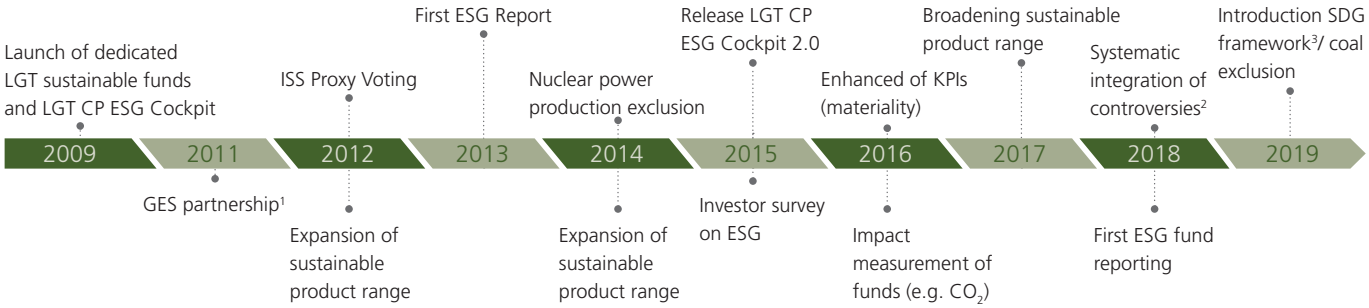
Ten years ago, sustainability was not yet high on the agenda for most investors. However, with strong support from our owner, the Princely family of Liechtenstein, we at LGT Capital Partners (LGT CP) decided to develop sustainable investment solutions. The family's engagement with ESG (environmental, social and governance) derives from their philosophy of being an entrepreneurial family that thinks in generations. "Sustainable and long-term thinking and actions have played an important role in my family for generations and are also deeply rooted in LGT's corporate culture," explains HSH Prince Max von und zu Liechtenstein, CEO LGT Group. "It is important to us that our business activities also have a positive impact on the environment and society. The consistent integration of so-called ESG criteria into our investments is an important part of this. In 2003, we introduced a clause for responsible investing as a fixed component of many of LGT's investment programs. In 2009, we successfully launched our sustainable equity and bond funds," he adds.

ESG integration in its early stages

Starting our sustainable investment solutions in 2009 meant first defining an investment process. At that time, ESG and sustainability were already existing investment topics, but usually understood as investment approaches for a very specific clientele, such as churches, foundations catering to social or environmental issues, pension funds of trade unions or individual investors who wanted to have a specific alignment of their investments with their moral beliefs. There was also a widespread belief that incorporating ESG aspects would limit investment opportunities and hence, lower risk-adjusted returns. Given LGT CPs' strong belief in broad diversification across sectors, industries and geographies, we set out to develop a holistic ESG approach that would allow us to invest broadly, while simultaneously offering the opportunity to further the cause of ESG integration through engagement. After looking at different ways to approach the topic, it became clear that we would pursue the philosophy of integration, which means incorporating the explicit inclusion of risks and opportunities in traditional financial analyses. Furthermore, we decided to also follow an approach, whereby we do not invest in companies that rank within the lowest 25% on ESG criteria. In addition, we defined some exclusions based on the concept of norm-based screening, which comprises of the screening of investments in terms of their conformity with certain international standards and norms, such as those developed by the OECD, as well as the UN and its agencies. A similar approach was defined in dealing with sovereigns. However, it was not an easy task to implement such a holistic ESG approach. After evaluating various tools to support ESG integration, it became clear that to get the quality and transparency we were looking for, we had to develop a proprietary tool known as the LGT CP ESG Cockpit (ESG Cockpit). The ESG Cockpit was developed to derive our own ESG assessment for all our investment decisions. The first challenge we encountered was data. ESG information for broad company universes was not that easily available as it is today and there was virtually no one providing granular data apart from Asset4. They were an independent Swiss sustainability provider, collecting ESG data to derive their own ratings, but also providing this raw data to clients. Therefore, we partnered with them to integrate their data into our systems. For government bonds and supranationals, we selected Inrate, a Swiss based ESG-research provider, to provide us with the required data. The second challenge was to agree on a set of Key Performance Indicators (KPIs) that reflected our beliefs and scientific research about material and relevant ESG aspects that should be taken into consideration when assessing the ESG performance of investments. Overall, the core investment process for our ESG/sustainability solutions, which was developed ten years ago, still holds true today.

Stable core investment process – continious development over more than a decade



Source: LGT Capital Partners. Data as of 30 November 2019.

[1] Global Engagement Services partnership for screening on controversial weapons

[2] RepRisk screens over 80,000 sources in 20 languages

[3] Sustainable Development Goals

ESG facts and figures

$>9
BN AUM

10
YEAR ANNIVERSARY OF OFFERINGS

OWN ANALYSIS TOOL – LGT CP ESG COCKPIT

LGT CP ESG COCKPIT

COVERS MORE THAN 7,500 COMPANIES AND 196 COUNTRIES

301%
CUMULATIVE RETURN[1]

SDG IMPACT GOALS
5,500+ COMPANIES WORLDWIDE

>50%
IMPACT BONDS IN GLOBAL FIXED INCOME SOLUTIONS

85%
LESS CO_2 EMISSIONS[2] THAN MSCI WORLD

CONTROVERSIES SCREENING OF MORE THAN 80,000 NEWS SOURCES IN 20 LANGUAGES

[1] since inception 30.11.2009 (LGT Sustainable Equity Global Strategy, 31.12.2019: composite, gross of fee, EUR)
[2] LGT Sustainable Quality Equity Strategy, 31.12.2019
Past Performance is not a guarantee, nor an indication of current or future performance.

An interview with Bonus Vorsorge-kasse AG: Claudio Gligo, CIO

Institutional investors, who committed themselves to investing sustainably ten years ago, also faced a number of challenges. Claudio Gligo from Bonus Vorsorgekasse AG, Austria shared a few past experiences that illustrate such hurdles:

How did you find possible partners when you started to invest sustainably?

We conducted a search both by utilizing platforms, but also using our market intelligence. Furthermore, we looked for explicitly sustainable funds and discussed our requirements in direct engagement with shortlisted companies. Over the years, we have established a close partnership with LGT CP and some other companies.

What were the biggest challenges in relation to investing sustainably over the years?

Not long ago, it was very difficult to find investment funds with a sustainability approach and a sufficiently high fund volume at all. Initially, the supply of funds was limited to Global and European Equities. Clients had to be convinced of the concept of sustainable investing, in particular that it does not necessarily lead to a performance disadvantage. As the demand for ESG investments increases, more and more ESG providers are taking up the cause. Many providers suddenly boast 20 years of ESG experience. On closer inspection, this could be limited only to not having invested in cluster bomb manufacturers. Increasingly, the topic of sustainability is also being used by suppliers for marketing purposes, and the danger of so-called greenwashing is increasing. A detailed analysis of the suppliers' sustainability competence is becoming unavoidable.

How was/is the perception in your organization of the risk-return impact when investing sustainably?

Expectations are slightly higher, as the integration of sustainability, especially into the company analysis, assumes a better assessment of the companies. At first glance, high environmental and social standards increase costs and reduce profitability. However, companies that use resources sustainably are on average less confronted with shortages. Risks are generally identified and avoided more quickly.

Why did you start discussions with LGT CP?

Our values are similar to those of LGT CP and we were convinced by their sustainability approach and performance. In direct dialogue, we were able to meet our requirements with regard to explicit reporting topics, such as CO_2 emissions and proxy voting.

Integrated investment process

Our ESG selection process begins with eliminating issuers of securities that are involved in controversial business activities or fail to meet certain minimum standards. We exclude companies that generate significant earnings from tobacco, gambling, arms, pornography, nuclear energy, thermal coal, unconventional oil and gas or which are violators of the UN Global compact. For government bonds, we eliminate countries that exhibit significant shortfalls with respect to human rights, rule of law and democracy, tolerate high levels of corruption or have not signed international conventions on controversial weapons. We then use the ESG indicator set to identify attractive investment opportunities, focusing on companies with business models that address climate change, social development or improving governance standards. The resulting issuer selection forms the basis for our global sustainable investment universe of approximately 3,600 companies and 90 sovereigns. As a final step, we integrate ESG value drivers into classical financial analyses to select individual securities for the portfolio.

LGT CP ESG Cockpit drives the analysis

As previously mentioned, the engine of our sustainability selection process is the ESG Cockpit. It draws on publicly available ESG data from a variety of well-established information providers, such as Refinitiv (formerly Asset4), ISS, RepRisk and Inrate, to generate ESG scores for individual securities. For example, our company analysis focuses on a wide array of metrics, such as emission levels or health and safety issues, as well as companies' policies and processes related to these issues. In doing so, we examine about 20 KPIs per company across the three themes of environment, social and governance. The KPIs that are applied and their respective weights vary across different sectors according to particular characteristics of that specific sector. For instance, carbon emission levels are an important metric for utilities, whereas training and development metrics are relatively more important for IT services. This enables us to focus on factors that are meaningful and material in assessing the ESG characteristics of the company. The ESG Cockpit plays a key role in security selection for our funds and provides a high level of flexibility and scalability. It allows us to create tailor-made portfolios, which can also include further individually specified exclusion criteria, such as GMO, agrochemicals, specific religious themes or others. In addition, the ESG Cockpit makes it possible to monitor ESG factors in our portfolios over time and make comparisons with other portfolios or indices.

Given that ESG integration is one of the most dynamic topics in the financial industry, it is key to embed new developments into our approach. Therefore, we have been constantly enhancing the ESG Cockpit. Significant improvements have been made in regards to the technical implementation, the range of analysis capabilities it offers and the underlying concepts. What started as a spread sheet, which was only able to calculate and show an individual company's ESG ratings and the respective KPIs, was then moved to a professional database and was set up as a programmed software solution. By doing so, the capabilities of the tool significantly increased. From then onwards, it was possible to do a bottom up ESG analysis for overall portfolios and benchmarks, with the data stemming automatically from the custody system. In addition, more data could be made accessible in a much more user friendly way. At the same time, the ESG Cockpit was also made accessible to all portfolio managers and analysts in equity and fixed income. Furthermore, we started to add additional content, such as environmental footprint measures, like greenhouse gas emissions. These figures are available for individual investments, as well as overall portfolios, enabling us to calculate the carbon footprints of our investment portfolios. Another milestone consisted of reworking the KPIs in order to incorporate environmental and social topics with a much stronger focus on materiality, i.e. adapting the KPIs and data used, as well as the respective weights to the individual sector companies are operating in. The most recent additions were the incorporation of controversial news flow on companies into the ESG assessment, and a framework for assessing companies' impact on the Sustainable Development Goals (SDGs) through their products and services.

Dynamic development in ESG

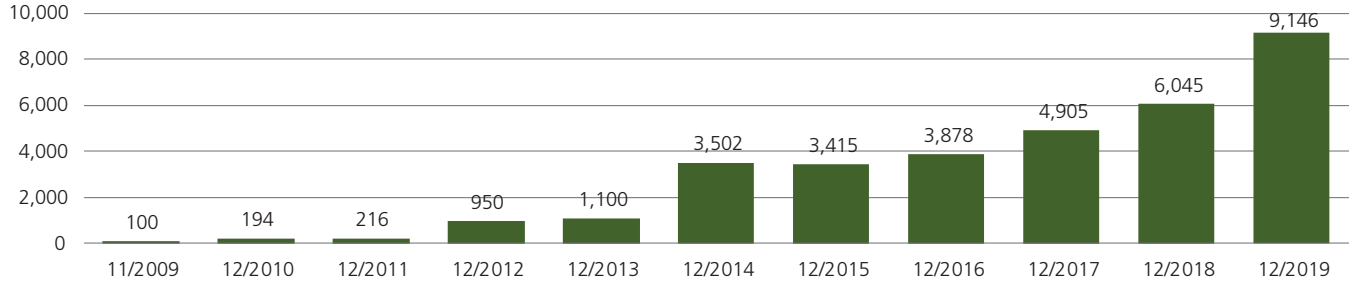
The development of LGT CPs' sustainability solutions also portrays the dynamics of the topic. Having started with a global bond and equity strategy in 2009, the number of solutions has constantly increased since. Today, 15 dedicated sustainability solutions in fixed income, equity and multi-asset are managed by a team of 25 portfolio managers and specialists. This includes strategies with regional focuses such as Europe, emerging markets or global, as well as a market neutral investment concept. The growing interest from investors has also led to a substantial number of customized mandates from around the world and resulted in a broad sustainable platform. Over the years, we have also transformed most of our fixed income strategies, which nowadays are managed according to sustainability standards. In line with our integrated investment approach, we also provide a dedicated, comprehensive ESG reporting for our offerings on a quarterly basis. We report, for example, on carbon footprint attribution, and provide an ESG score breakdown for each sector.

Demand for the offering has grown significantly over the last years, especially from institutional investors. We are currently managing around USD 9 billion in our sustainable funds and mandates. Besides a general trend, this is also driven by regulations demanding much more from clients, such as pension funds, in terms of incorporating ESG, as well as increased stakeholder pressure. The two major reasons behind these developments are clearly climate change, and the ever-increasing urgency to mobilize capital to combat it, and the emergence of the SDGs as a globally accepted set of development targets for the future.

> **What is the biggest driver for investing sustainably?**
>
> "The climate change challenge"
>
> Peter Lindegaard, CIO
> Industriens Pensionsforsiking AIS, Danish pension fund

The great advantage of the rapid development is that there is a constant flow of information regarding new ideas and concepts, which stems from clients, regulatory and industry bodies, as well as competitors. LGT CP is in an excellent position to keep up with these developments, as we are very well connected within the ESG landscape, e.g. by having our managing partner Tycho Sneyers, who is also chairing our ESG committee, on the board of UN PRI. We also have very strong relationships to clients in countries that are at the forefront of ESG, such as the Nordics, where a variety of information on new requirements and developments arise.

AuM development of LGT sustainable investing solutions[4] (direct investments)



Source: LGT Capital Partners. Data as of 31 December 2019.

[4] includes all LGT sustainable funds and institutional mandates (direct investments); expansion of sustainable product range due to introduction of ESG criteria to existing investment portfolios

An interview with KWAP: Md Hafidz Md Hamzah

Implementing ESG into the portfolios of institutional investors is demanding. Md Hafidz Md Hamzah from KWAP, a pension fund for government employees in Malasyia, explains what was vital for them in regards to ESG integration:

What is the biggest driver for investing sustainably?
KWAP believes in an investment approach that explicitly integrates ESG criteria into the investment process to improve long-term risk-adjusted return. The expectation is that over time, today's ESG leaders will manage emerging industry specific risks more efficiently than their peers.

Why did you start discussions with LGT CP?
The need to go beyond exclusions of sin sectors has prompted KWAP to enhance our sustainability philosophy. With this in mind, KWAP went on to seek the best in class managers with a proven track record of adopting ESG principles into their investment philosophy. We came across LGT CP whilst conducting a due diligence exercise to evaluate suitable managers to manage KWAP's first global ESG equity mandate.

What do you expect from a partner in sustainability?
It is important for KWAP to be informed of and exposed to the developments in regards to ESG, such as the latest available instruments and best practice. One way to achieve this is to have multiple collaborations and open communication with our partners. We welcome joint-dialogue, seminar and exchange programs as possible initiatives to transfer knowledge. We also expect our partners to share available ESG investment opportunities, which offer reasonable long-term returns.

ESG 2.0 – Making the SDGs investable

With the SDGs gaining increasing attention in the last several years, we at LGT CP began exploring how they could be integrated into our sustainable equity and bond portfolios. The collection of 17 global goals was approved by 193 United Nations member countries in September 2015, and they address topics such as poverty, hunger, health, education, climate change, environment and social justice. Achieving them is estimated to require an overall investment of USD 5 to 7 trillion per year until 2030 according to UN PRI. The SDGs themselves were designed as a set of environmental and social goals defined by governments and non-governmental organizations, not as an investment framework. We have been working on an approach to make the SDGs investable by developing a framework that assesses how companies contribute to achieving the SDGs. It looks at how a company's products and services impact the SDGs. In doing so, we leverage our existing tool, the ESG Cockpit. Assessing companies on their SDG impact was a natural extension of what the tool already does on ESG.

> **What is your opinion on the SDGs?**
> "We find that the SDGs are an important tool to shape and access our investments going forward."
> Peter Lindegaard, CIO
> Industriens Pensionsforsiking AIS, Danish pension fund

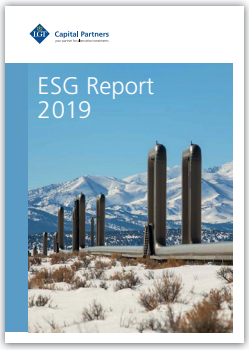
Assessing companies for SDG impact

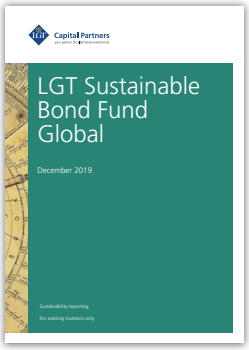
The starting point for our framework revolves around our ability to assess both the positive and negative impacts of companies' products and services on the various SDGs. Towards this end, we sourced a consistent and comparable set of data from one of the large data providers, and we sorted it into approximately 300 different categories of products and services, covering most of the possible business activities of listed companies. We then attributed a SDG impact measure ranging from -10 to +10 to each product and service category on the respective SDG. To use a very simple example, a company that focuses on the production of renewable energy will have an impact score of +10 on Climate Action (Goal 13), whereas coal-fired energy production will have a score of -10. The overall impact of a company on a certain SDG is then calculated by summing up the impact of all relevant business activities weighted with their respective revenue share. Using this framework, we can derive an overall SDG footprint of individual companies by calculating their impact on the SDGs. As the final step, a footprint can be calculated for an entire investment portfolio by aggregating the individual investments. This shows the investor the total impact of their portfolio on the various SDGs, whether positive or negative, which can then be compared to the SDG impact of a benchmark. This assessment is now part of the standard ESG analysis executed via our ESG Cockpit.

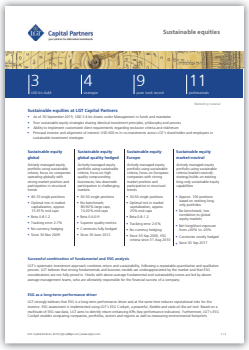
In sum, we are aware that investors are keen to address pressing environmental and social topics. By consistently redirecting capital flows to companies, organizations and countries that take a long-term approach and operate responsibly, investors can make a significant contribution to the more sustainable development of the economy. As asset managers and as investors, we continuously strive to further enhance ESG integration into our investment solutions.

A detailed overview of our sustainability offerings can be found by scanning the QR code:

Please find a selection of LGT CPs' ESG documents below:







LGT Capital Partners Ltd.
Schuetzenstrasse 6
CH-8808 Pfaeffikon
Phone +41 55 415 96 00
Fax +41 55 415 96 99

LGT Capital Partners (USA) Inc.
1133 Avenue of the Americas
New York, NY 10036
Phone +1 212 336 06 50
Fax +1 212 336 06 99

LGT Capital Partners (Ireland) Ltd.
Third floor
30 Herbert Street
Dublin 2
Phone +353 1 433 74 20
Fax +353 1 433 74 25

LGT Capital Partners (U.K.) Limited
1 St. James's Market
London SW1Y4AH
Phone +44 20 7484 2500
Fax +44 20 7484 2599

LGT Private Debt (UK) Ltd.
1 St. James's Market
London SW1Y4AH
Phone +44 20 7484 2500
Fax +44 20 7484 2599

LGT Private Debt (France) S.A.S
37 Avenue Pierre 1er de Serbie
75008 Paris
Phone +33 1 40 68 06 66
Fax +33 1 40 68 06 88

LGT Capital Partners (FL) Ltd.
Herrengasse 12
FL-9490 Vaduz
Phone +423 235 25 25
Fax +423 235 25 00

LGT Capital Partners (Dubai) Limited
Office 7, Level 3, Gate Village 10
Dubai International Financial Centre
P.O. Box 125115
Dubai
Phone +971 4 401 9900
Fax +971 4 401 9991

LGT Investment Consulting (Beijing) Ltd.
Suite 1516, 15th Floor
China World Tower 1
No. 1 Jianguomenwai Avenue
Chaoyang District
Beijing
Phone +86 10 6505 82250
Fax +86 10 5737 2627

LGT Capital Partners (Asia-Pacific) Ltd.
Suite 4203 Two Exchange Square
8 Connaught Place
P.O. Box 13398
Central Hong Kong, HK
Phone +852 2522 2900
Fax +852 2522 8002

LGT Capital Partners (Japan) Co., Ltd.
17th Floor Stage Building
2-7-2 Fujimi, Chiyoda-ku
102-0071 Tokyo
Phone +81 3 6272 6442
Fax +81 3 6272 6447

LGT Capital Partners (Australia) Pty Limited
Level 36 Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Phone +61 2 8823 3301

Refutura FSC® recycled, matte, ISO white 100,
100% recycled paper, carbon-neutral, Blue Angel

LGT Capital Partners Ltd.
Schuetzenstrasse 6, CH-8808 Pfaeffikon
Phone +41 55 415 96 00, lgt.cp@lgt.com

www.lgtcp.com

0519 1H LGT