Capital Partners
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ESG Report 2019

"We are encouraged to see progress on ESG by managers in all regions, albeit from very different starting points."

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

Contents

Introduction

We are pleased to share this year's ESG report with our investors and stakeholders, giving an update on the state of ESG practices in our portfolios. In this report, we provide an overview of the key findings of our annual ESG assessment of 218 private equity managers and 86 hedge fund and long-only managers with whom we partner. We also share the ESG key performance indicators (KPIs) of our private equity co-investments and private debt portfolio companies.

For our sustainable bond and equity offerings, we show the carbon footprints of our various portfolios and highlight some of the innovations we are carrying out with our ESG Cockpit, the engine that drives our sustainability assessments. We also look at the growth of green and sustainable bonds within our portfolios and the broader financial market.

In addition, we zoom in on a number of special topics, such as how we monitor ESG risk in our private equity portfolios, how to execute a long/short hedge fund portfolio with an ESG tilt and how to embed the Sustainable Development Goals (SDGs) into a globally diversified equity portfolio. Taken together, the topics in this report give investors a snapshot of how ESG and sustainability is being implemented in our portfolios and also provide a glimpse of where we are headed in the future.

One clear theme that stands out this year is the growing importance of the SDGs. Investors are increasingly turning to the SDGs to make their sustainable investment activities more outcome oriented, and they have high expectations for the goals. We have responded by developing an innovative assessment module in our ESG Cockpit, which calculates the impact of investee companies, and whole portfolios, on the SDGs. We see it as the starting point – and a template – for how we will integrate the SDGs into other asset classes in the future.

As always, we would be pleased to discuss with you any questions or comments you may have on the information presented.

On behalf of LGT Capital Partners,

Tycho Sneyers
(Chairman of the ESG Committee)

Facts and figures

304 MANAGERS ASSESSED ON ESG

81
METRIC TONS OF CARBON ARE SAVED BY OUR GLOBAL EQUITY STRATEGY OVER THE BENCHMARK[1]

65%
OF PRIVATE EQUITY MANAGERS ARE RATED EXCELLENT OR GOOD ON ESG

59%
OF PRIVATE EQUITY CO-INVESTMENT COMPANIES HAVE DIVERSITY INITIATIVES IN PLACE

46%
OF THE LGT SUSTAINABLE BOND STRATEGY IS COMPRISED OF GREEN BONDS

The Green Bond Principles

1,426
NET JOBS CREATED IN OUR PRIVATE DEBT PORTFOLIO COMPANIES

[1] CO_2 equiv./USDm

ESG assessment of managers – how we do it

Each year we conduct an assessment of managers, which forms part of the firm's larger ESG due diligence, monitoring and manager engagement process. The assessment serves a two-fold purpose. First, it shows our investors the extent to which managers are considering ESG factors in their investment, ownership and reporting practices. Second, the assessment facilitates our engagement with managers on ESG, highlighting excellence in implementation and flagging areas for improvement.

In the assessment, we ask managers about, and score them on, four key measures of ESG practice:

- Manager commitment – the extent to which they have demonstrated their commitment to ESG through actions such as defining a policy, committing to an industry initiative like PRI and engaging with their portfolio companies
- Investment process – the extent to which they have formally integrated ESG into their investment processes, using it as a framework for evaluating investments and identifying areas for improvement
- Ownership – the extent to which they have exhibited active ownership through activities like defining ESG guidelines, establishing key performance indicators (KPIs) or assigning ESG responsibilities for portfolio companies
- Reporting – the extent to which they have provided regular and relevant reporting on ESG on a portfolio company level and on the aggregate fund level

Managers receive a score of 1 to 4 (where 1 = excellent and 4 = poor) on each of the four measures, resulting in an overall rating for each manager, which is then documented in our monitoring system. Managers who receive low scores (3 or 4) on specific indicators are encouraged to improve over time.

Rating	Description
1	Manager is genuinely committed to ESG, with institutional processes in place. Applies ESG criteria in investment decision-making, is an active owner and reports on ESG
2	Manager has taken steps to integrate ESG into its approach and investment process. Process is institutionalized, but manager may not follow through on all levels (e.g. reporting)
3	Manager demonstrates some commitment to ESG or has begun some initiatives, but lacks institutionalized processes
4	Manager demonstrates little or no commitment to ESG

Private equity

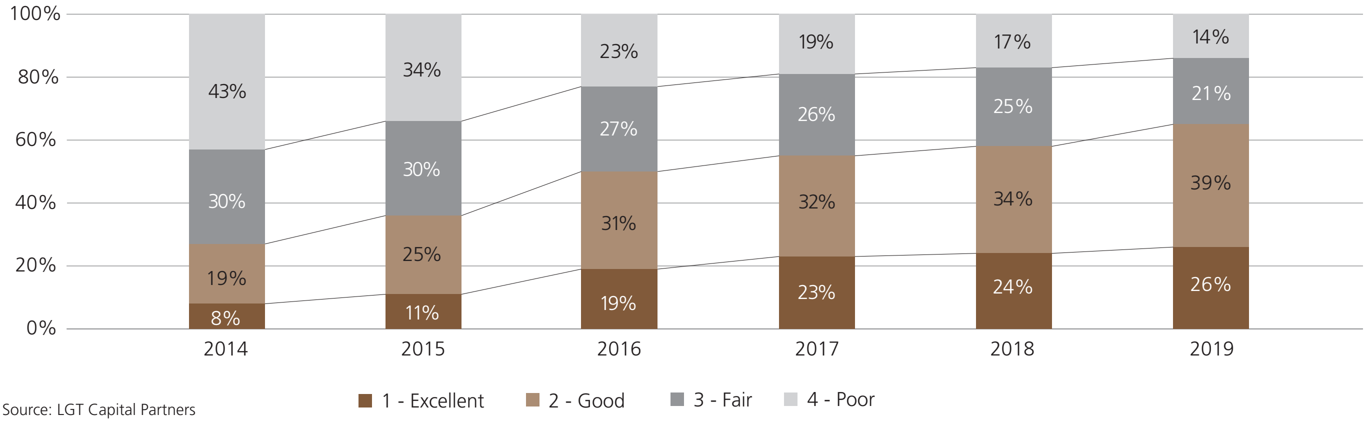
More managers continue to institutionalize their ESG practices

We see further progress globally on ESG, as measured by the continued improvement in ratings of managers. In this year's assessment of 218 of our private equity managers, 65% have achieved our top ratings of 1 or 2 on ESG. This indicates that they have institutionalized processes in place for managing ESG issues within their portfolio companies. It represents an increase of 7 percentage points since last year in the proportion of managers rated 1 or 2 (58%) and a 38 percentage point increase since 2014 (27%).

The increase in this cohort of managers is especially encouraging because those who achieve such ratings have demonstrated an institutionalized approach to ESG integration. They will have typically transitioned from a largely ad-hoc set of practices to a systematic one, where ESG is formally embedded into their investment and ownership activities. We also know from experience that managers who take this step tend to continue improving over time because they now have formal structures in place to facilitate further enhancements.

The overall picture we see is that ESG integration has become mainstream in private equity. Practices may vary widely between managers, but the overwhelming majority have at least started on their ESG journeys.

ESG ratings globally

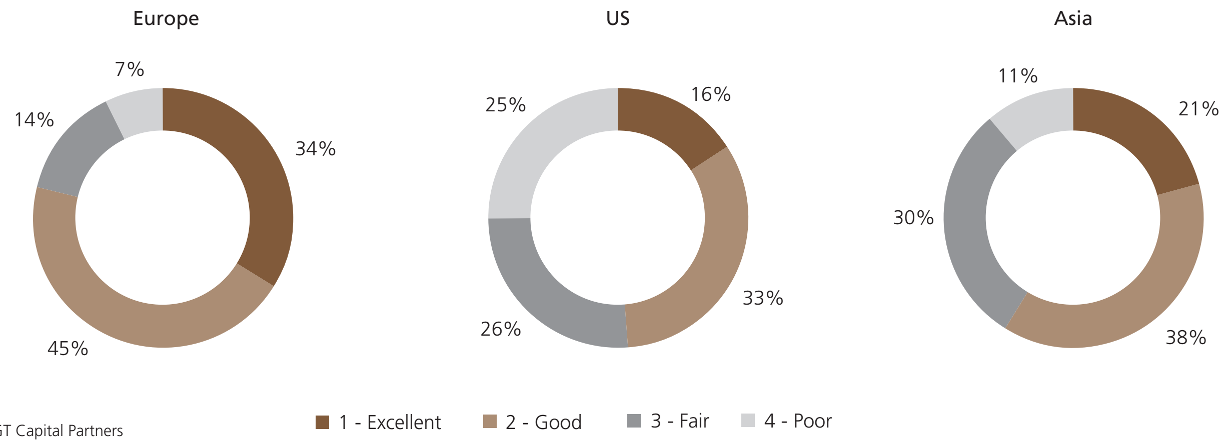


Source: LGT Capital Partners

Progress everywhere, but Europe still leads

We are encouraged to see progress on ESG integration by managers in all regions, albeit from very different starting points. Europe is still in the lead with 79% of managers rated either 1 or 2, followed by Asia with 59% and the US trailing somewhat with 49%. The improvement in manager ratings in the US and Asia echoes the sentiment we hear in conversations with managers and clients in these regions. It is also reflected in the discussions taking place at industry events, where ESG appears to be gaining traction in both regions.

ESG ratings by region in 2019



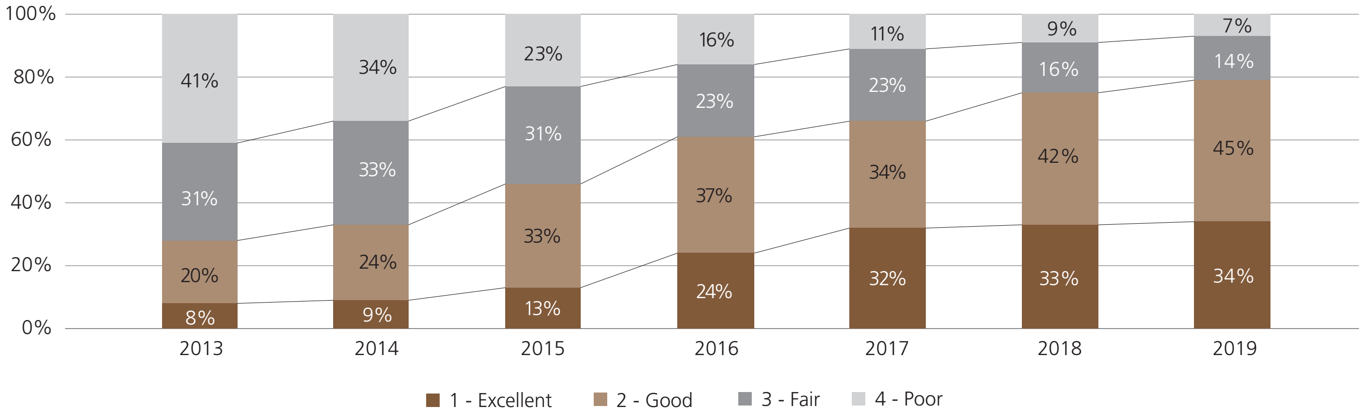
Source: LGT Capital Partners

Institutionalized ESG efforts prevail in Europe

Europe has long led the way on ESG development, as asset owners there made it a priority early on. For example, many large European pension funds see their responsibility to beneficiaries more broadly than simply providing financial security, but also contributing to a "good retirement" in a world with clean air and water, as well as stable communities. It is also often taken as a given by businesses and investors in these countries that companies have a responsibility to a wide array of stakeholders. This includes not only shareholders, but also the communities in which they operate as well as others who may be affected by the social and environmental externalities of business activities.

With seven years of ESG ratings data, it is our longest time series for viewing the evolution of ESG practices in our portfolios. In 2019, we have arrived at a place where only a small minority of managers, the 21% rated 3 or 4, have yet to develop institutional approaches to managing ESG considerations in their portfolio companies. With 79% achieving ratings of 1 or 2, it is now largely assumed that private equity managers in Europe take a systematic approach to managing ESG risks and capturing the ESG opportunities.

ESG ratings in Europe



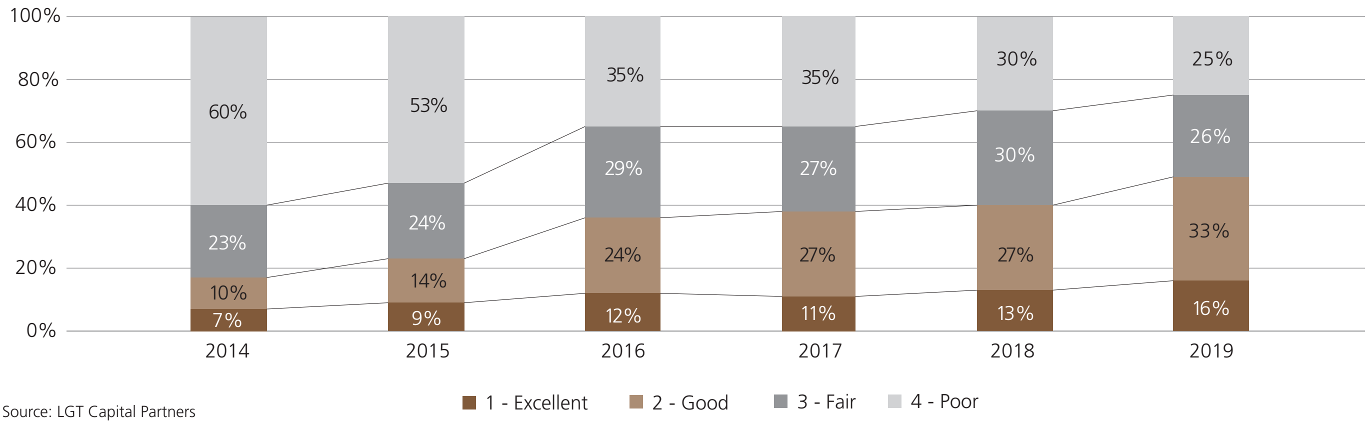
Source: LGT Capital Partners

US moving forward on ESG

Long seen as the "laggard" on ESG, both in terms of the private equity managers in our portfolios and more broadly, the US is now clearly moving forward. The proportion of managers rated 1 or 2 on ESG has increased to 49%, a jump of nine percentage points since last year. This is a much higher year-on-year increase than we saw in the previous three years, as shown in the chart. Taking the longer view, over the last six years the share of managers rated 4 – effectively doing nothing on ESG – has decreased by 35 percentage points.

This change in the numbers is also reflected in the evolving views on ESG that we hear in our discussions with managers. Whereas in the past we often encountered the misperception from US managers that ESG is merely about complying with applicable laws and regulations, this year we found much greater receptivity. Most are genuinely interested in the topic and many seek guidance on what they could be doing better. In response, we often pointed them to our publication, "A guide to ESG integration in private equity," which highlights best practice through a series of 12 case studies involving 10 of our strongest managers on ESG.

ESG ratings in the US



Source: LGT Capital Partners

Case study: CD&R achieves top rating with focus on continuous improvement

One of our large US buyout managers, Clayton, Dubilier & Rice (CD&R), has improved its approach to ESG by further institutionalizing how it manages ESG factors in its portfolios. During the past year, members of the CD&R team reached out to us several times to exchange views on best practice. On the back of the ESG enhancements they implemented, their rating improved from 2 to 1 this year.

CD&R has always had a strong ESG practice, as indicated by its previous rating of 2. As part of this, the team follow a structured ESG process to onboard portfolio companies, where they familiarize themselves with the material ESG topics and define the key topics. This also includes an assessment and discussion about best-in-class sustainable business practices. Furthermore, the CD&R operating partner usually chairs the company's board and promotes the ESG agenda.

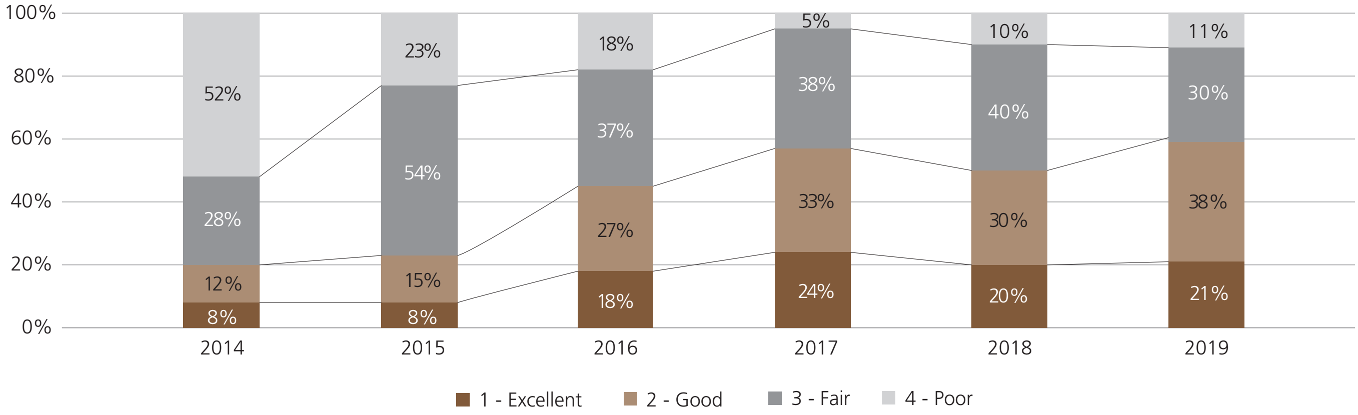
Over the last several years, CD&R has worked to enhance the way it integrates ESG into its investment due diligence process. Before, ESG assessments focused on companies with known, material ESG risks, but now they look at the ESG aspects of all companies that are considered for investment. This has changed their process from one in which ESG was largely a matter of "do no harm" to one where ESG is an integral part of the investment due diligence process and a potential source of value creation.

They have also enhanced how they manage ESG issues during the ownership period. In addition to the ESG interactions they already have at board level, CD&R's ESG leader organizes meetings or calls with the portfolio company to review and discuss the ESG report prepared by the company. This includes a review of ESG action items as well as any progress that has been made. Finally, CD&R has enhanced reporting on ESG by, among other things, listing specific ESG goals that they have for every portfolio company. Taken together, CD&R has developed a fully comprehensive approach to integrating ESG factors into the investment, ownership and reporting processes.

Asia swiftly developing strong ESG practices

Like in the US, the proportion of higher rated managers (1 or 2) in Asia has also increased considerably in just one year. The cohort grew by 9 percentage points to 59% of all Asian managers since last year, which is in line with the improvement observed in the US. It also means that managers with institutionalized processes for ESG integration are a significant majority in the region. We see Asia swiftly developing as a place where robust ESG practices will soon be the norm among top-tier private equity managers in the region.

ESG ratings in Asia



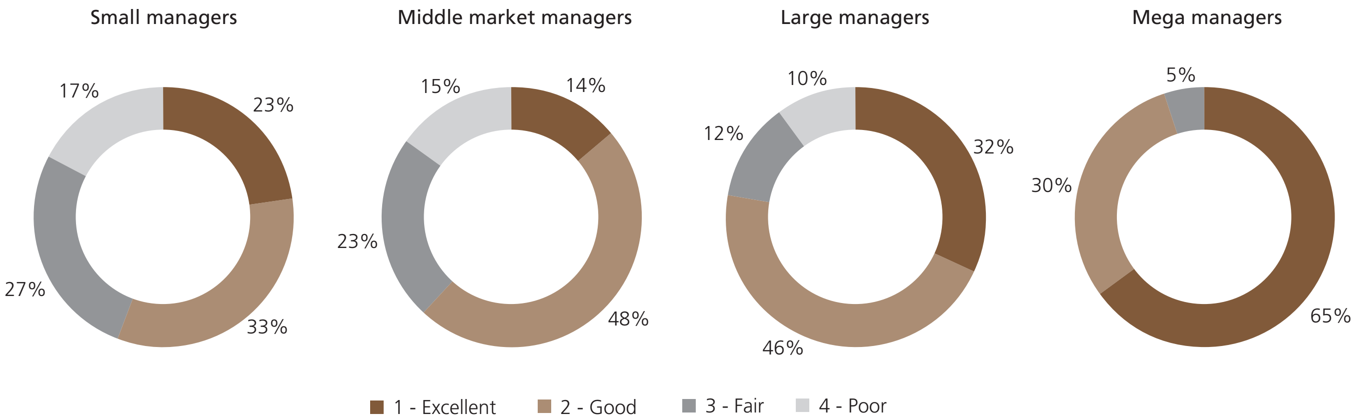
Source: LGT Capital Partners

Size is still a factor in ESG uptake

We continue to see differences in ESG ratings between large and mega-sized managers on the one hand and small and middle market managers on the other. The large managers in our portfolios, as a group, tend to be very strong on ESG, with 78% having institutionalized practices in place and 95% of mega managers having the same. By contrast, 56% and 62%, respectively, of small and middle market managers earned ratings of 1 or 2.

We have often observed that larger scale provides greater scope for institutionalized practices to develop, as the managers have more resources for hiring dedicated ESG staff and investing in systems and processes to facilitate management of ESG factors. Larger managers benefit from a natural ESG tailwind, but we should not overstate the importance of scale. The fact that over half of our smallest managers have already developed robust systems for managing ESG issues is proof that size should not be a decisive factor in determining whether a manager adopts strong ESG practices.

ESG ratings by size of funds in 2019 (EURm)



Source: LGT Capital Partners

ESG practice improving in all four areas of focus

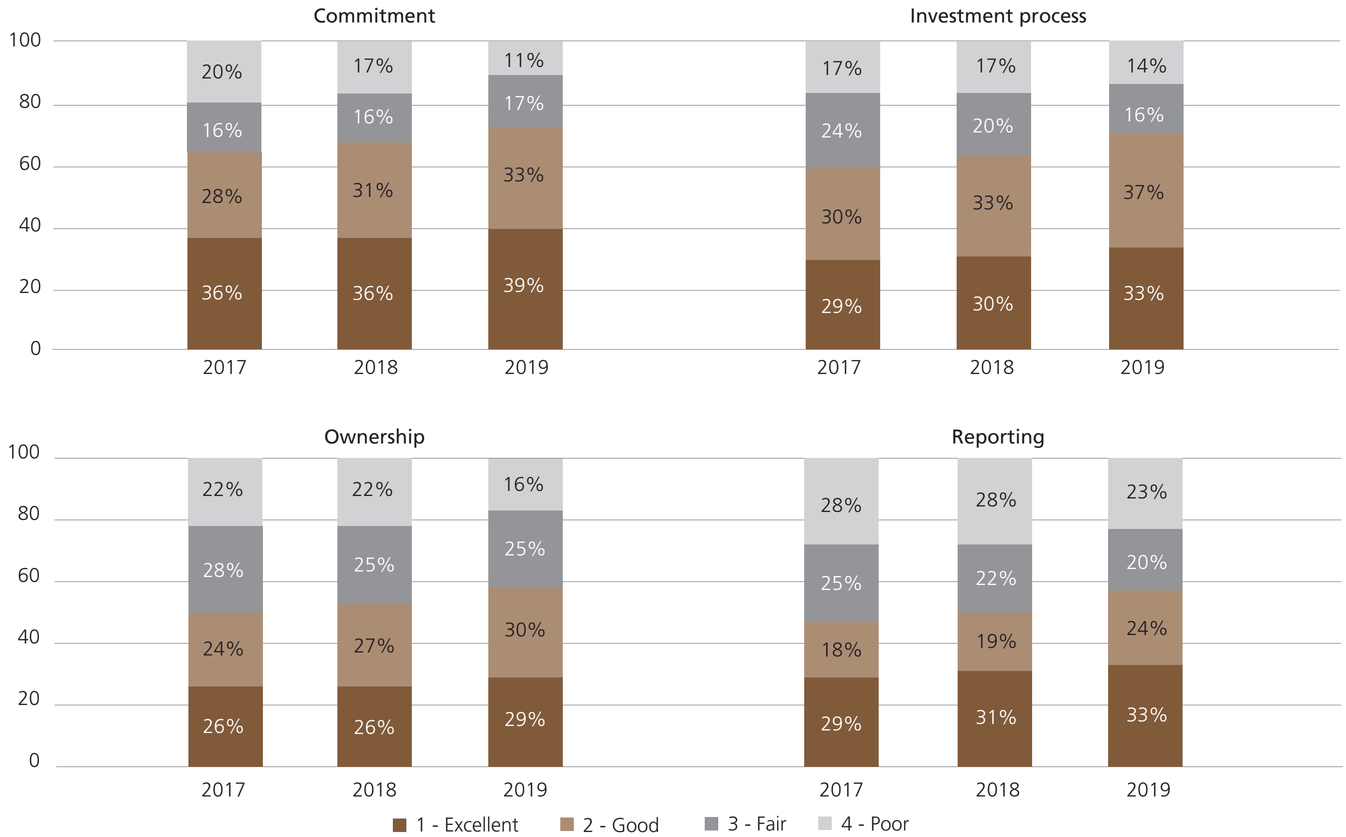
When looking at our manager ESG practices in terms of the various areas of focus – commitment, investment process, ownership and reporting – we see a clear trend. The first steps a manager takes on ESG usually involve making a formal commitment to ESG, typically by signing onto a recognized set of sustainability standards or joining an organization like the Principles for Responsible Investment (PRI). Then, they work to integrate ESG into their investment and ownership practices, with reporting being the last piece of the puzzle to fall into place.

The ratings shown in the charts bear out this process. The greatest proportion of managers have received top marks for their commitment to ESG, with 72% of managers receiving ratings of 1 or 2 for their commitment to ESG. We also observe an improvement of manager ratings in the investment process, where the proportion of managers rated 1 or 2 increased from 63% last year to 70% today.

We see a slightly smaller improvement in the ownership focus area, where the share of managers with top ratings (1 and 2) increased from 53% to 59% since last year. We take this as an encouraging sign because managers can make significant ESG improvements to companies during the ownership period.

We also find that 57% of managers have been rated 1 or 2 for reporting, which is up from 50% last year. It is reassuring to see that reporting is not being overlooked by managers. It is a resource-intensive area of ESG activity, as it requires systems for tracking and evaluating ESG metrics, but our managers appear to be rising to the challenge.

ESG ratings by area of focus

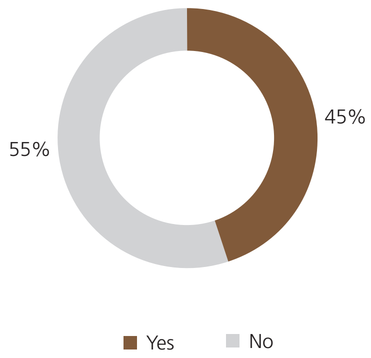


Source: LGT Capital Partners

How managers think about diversity

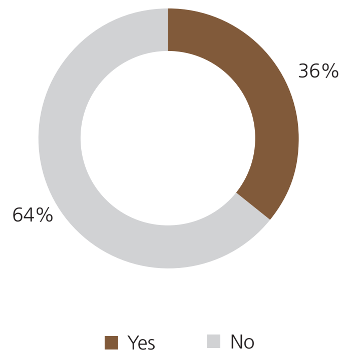
Workforce diversity has become an increasingly important topic in both ESG investing and business operations. With this in mind, in this year's ESG assessment, we asked our private equity managers to tell us about their approach to diversity. We find that 45% of our managers have a diversity policy in place. This can range from a simple acknowledgement of the importance of a diverse workforce to policies that actively seek to adjust the balance towards greater inclusivity. By comparison, 36% of managers consider diversity and inclusion at board level in their investment process, seeking to ensure that the companies they own reflect the full range of talent available.

Does the manager have a diversity policy?



Source: LGT Capital Partners

Does the manager consider diversity in its investment process?



Source: LGT Capital Partners

LGT Capital Partners and diversity

LGT Capital Partners (LGT CP) is committed to maintaining and further developing the diversity of its team in order to draw from the widest pool of talent for our business. The effort is led by the firm's Diversity Committee, which is comprised of senior professionals, including a managing partner who represents the Committee on our Executive Management Team. Early initiatives have included joining Advance – Women in Swiss Business to cultivate female talent and create opportunities for women to thrive in their careers. For example, Advance conducts skill-building workshops for women at all levels of the organization, and it facilitates mentorships for select staff members who have high potential for senior management.

In 2018, we revised our recruiting roadmap and processes to increase awareness of gender equality in recruiting decisions. This has included a greater focus on recruitment of female graduates through targeted campaigns, such as networking events, presence at university job fairs and engagement with recruitment agencies. We are also introducing a dedicated management training on diversity and inclusion. Finally, we aim to foster an open dialogue around diversity to better understand the diversity concerns of our staff.

Manager engagement

Our annual assessment of managers, which is the basis for the preceding data and analysis, also acts as a springboard for engagement on ESG. Over the past year, we set out to engage specifically with our lower rated (3 and 4) private equity managers, as they have the most scope for improvement. Towards this end, we held meetings and conference calls to discuss what ESG activities these managers are undertaking and where their challenges lie. During the course of the year, we were able to discuss ESG with the large majority of our 3- and 4-rated managers.

The discussions provided us with additional insights – beyond what we gain from our annual ESG assessment – into how managers think about ESG and what they focus on. For example, we learned that some managers have strong records in promoting health and safety practices within their portfolio companies, but some do not think of this as being part of their ESG efforts. During our discussions, we were able to clarify activities that are in scope for ESG, thereby supporting them in further institutionalizing their approach.

In another example, a US manager mentioned that ESG efforts are a logical extension of the business transformation work that they anyway undertake with portfolio companies. To them, adding ESG-related KPIs, such as energy consumption, staff retention and anti-bribery, serve to strengthen their existing reporting framework.

In our experience, the engagement discussions can help us better understand a manager's activities and perspectives on ESG. Importantly, engagement facilitates developing practical approaches helping our managers become better equipped to carry out their ESG activities.

Monitoring ESG controversies

Last year, we put in place a solution to monitor over 6,000 companies in our private equity portfolios for ESG controversies. We work together with our partner, RepRisk, which has a proprietary platform for tracking more than 80,000 online information sources in 20 languages. Monitoring these sources helps to flag controversial ESG issues, ranging from allegations of environmental or social harm caused by a company to claims of corruption or other governance issues.

During the last six months of 2018, our monitoring solution identified 56 ESG incidents that we deemed to be material, either from a reputational risk perspective or in terms of a potential threat to company value. The incidents were concentrated in three sectors: consumer discretionary, financials and health care. The incidents included, amongst others, various accidents, environmental damage and workplace harassment.

Within our process, we make an initial assessment of the incident to determine whether follow-up is required, based on a risk assessment of the incident and whether investors and management can influence or change future behavior. We also consider the impact on net asset value and reputational risk. The monitoring solution provides timely insights on the ESG controversies that companies in our private equity portfolios face.

ESG in co-investments

This marks the first year we are covering our private equity co-investment activities in our ESG Report. We typically co-invest alongside high-quality private equity managers we know well and with whom we are already invested. In total, over 30 different portfolio companies are included in this year's analysis.

ESG in our co-investment due diligence process

ESG is an important part of our investment and monitoring process for co-investments. We look at both the individual portfolio company as well as our co-investing private equity manager. LGT CP has a structured assessment of ESG topics for each co-investment opportunity we consider, which consists of three main steps:

Step 1. ESG screening

In the initial phase, we assess and evaluate the investment opportunity, undertaking an ESG screening to identify risks and opportunities early on in the process. This is based on a pre-defined checklist covering various areas, as well as consideration of any ESG controversies identified by our risk monitoring solution (as described on the previous page). It tracks more than 80,000 online information sources in 20 languages, flagging controversial ESG issues. The team also considers LGT CP's ESG assessment of the private equity manager.

Step 2. ESG due diligence

Ahead of the final investment committee meeting, the co-investment team conducts a detailed analysis of ESG-related due diligence reports. This often comprises environmental due diligence, a legal and compliance review and human resources due diligence. When the co-investment team identifies an ESG-sensitive issue, it seeks the advice of the firm's ESG Committee, which is subsequently reflected in the final investment recommendation. Each year certain co-investment opportunities are not pursued at this stage due to ESG factors. Materiality considerations of ESG issues are always part of the analysis.

Step 3. Ongoing monitoring

In the context of the regular monitoring activities of co-investments, the co-investment team monitors ESG aspects of the investment and follows up as required. This includes monitoring for ESG controversies, as described earlier.

Portfolio company KPIs

This is the first year that we have collected and aggregated a set of ESG key performance indicators (KPIs) for our co-investments.[2] This provides us with insights on where companies and management teams are focusing and what indicators are relevant to our portfolio companies. The exercise also shows which KPIs are more developed and which ones need more attention in terms of general monitoring, data availability or data comparability.

ESG KPIs

	Item	Score	Comment
General	ESG policy	44%	44% of the companies have an ESG policy in place.
	ESG training	56%	56% of the companies provided some sort of ESG training to their employees.
	Absence of litigation on ESG topics	91%	91% of the companies had no ESG-related litigation in 2018.
Environment	Existence of an environmental policy	41%	41% of the companies have an environmental policy.
Social	Diversity initiatives	59%	59% of the companies have initiatives in place that focus on diversity topics.
	Remuneration committee	52%	52% of the companies have a remuneration committee in place.
Governance	Code of Conduct or Ethics	82%	82% of the companies have a Corporate Code of Conduct or Corporate Code of Ethics in place.
	Women in executive management	24%	Women comprise 24% of executive management teams.
	Independent board members	28%	At board level, 28% are independent board members.
	Independent audit committee	55%	55% of the companies have a separate and independent audit committee.

Source: LGT Capital Partners

[2] Based on responses to our survey of our private equity portfolio companies as of 31 December 2018 or most recent data available, featuring a selection of key items

Generally, we find that the governance KPIs are the most advanced and most closely monitored. This is not surprising, given that investors have long had an interest in governance issues, well before ESG came to prominence. Social KPIs also have relatively good coverage among our co-investment companies, and seem to be in sync with growing investor concern, for instance, over diversity.

Among our portfolio companies, environmental KPIs are the least closely tracked, as many companies have not yet established systems for capturing their environmental footprints. This is in part due to the tilt of the portfolio towards services and technologies businesses, rather than traditional industrial companies. For many of our companies, tracking waste volumes and recycling rates would not provide meaningful insights on the business because the footprints are relatively small.

The KPIs reveal several examples of ESG best practice among our portfolio companies. For example, Tendam is a leading European fashion company that monitors its carbon footprint closely, including its supply chain. It reports to investors on all levels of CO_2 emissions (scopes 1, 2 and 3) on an annual basis, with the help of an external environmental advisor.[3] The company also publishes a sustainability report reflecting the company's commitment to sustainable growth. Another example is Milani Cosmetics, a US-based cosmetics business that is strong on governance, with a full-time director for regulatory affairs. The role is much broader than simply overseeing legal compliance, as it extends to ensuring compliance with the company's high environmental and ethical standards for products, as well as maintaining relevant industry certifications.

[3] Scope 1 are direct emissions caused by a company's own production of products and services, scope 2 accounts for indirect emissions from the generation of purchased electricity and scope 3 comes from purchased products and services

Private debt

Portfolio company KPIs

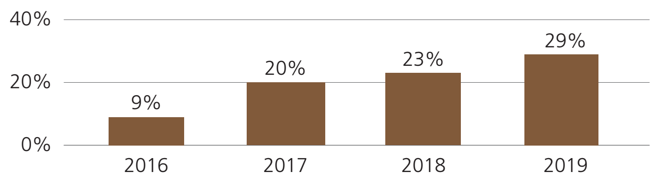
Each year we collect a range of ESG KPIs on the companies in our private debt portfolio, which provide us with insights on how companies are responding to their ESG challenges and opportunities. The portfolio is comprised of small and mid-sized European companies, with a tilt towards those in the service, technology and light industrial sectors. In addition to collecting KPIs, we regularly engage with portfolio companies on ESG to gain a better understanding of how they approach the topic.

Below we aggregate a selection of KPIs across our portfolio of more than 40 companies to provide a snapshot of how our private debt portfolio overall is performing on ESG.[4]

ESG overview

A relatively small proportion of our portfolio companies, 29%, currently report on CO_2 emissions, but this has been steadily rising over the last four years, as seen in the chart below.[5] We take that as an encouraging sign that more companies are starting to measure it, clearly acknowledging the growing importance of this KPI in the global fight against climate change.

Proportion of companies assessing their carbon emissions



Source: LGT Capital Partners

ESG KPIs

	Item	Score	Comment
General	Existence of an ESG policy	51%	51% of the companies have an ESG policy. Four companies stated they are currently developing one.
	Tracking of ESG initiatives	46%	46% of the companies track their ESG initiatives with specific KPIs and reports.
	Absence of litigation on ESG topics	90%	Three companies dealt with ESG-related litigations in 2018 (one environmental, two social-related).
Environment	Existence of an environmental policy	44%	44% of the companies have an environmental policy. Four companies are currently implementing one.
	Estimation of carbon footprint	29%	29% of the companies have assessed their carbon footprint at least once.
	Water or energy consumption	46%	46% of the companies track their consumption of water and energy (primarily electricity and fuel).
	Waste volumes, cost, and % recycled	46%	46% of the companies track their waste volumes. 28% of the companies monitor waste recycling.
Social	Job creation	70%	Net 2018 job creation across the portfolio was 1,426, with 70% of companies having increased their headcount.
	Diversity – female headcount	41%	41% of the portfolio's headcount are female.
	Availability of training opportunities	85%	85% of the companies provide training opportunities to a significant portion of their employees.
	Company-wide profit sharing	54%	54% of the companies grant extra bonuses to their employees depending on financial performance.
Governance	Independent member(s) at Board	54%	54% of the companies have boards comprising at least one independent member.
	Board/Supervisory Board annual frequency	7	Board meetings are scheduled seven times per year on average.
	Existence of a corporate code of ethics	59%	59% of the companies have a corporate code of ethics.
	Existence of other specific committees	61%	61% of the companies use specific committees (management, audit, remuneration, etc.) to assist the board.

Source: LGT Capital Partners

[4] Based on responses to our survey of LGT CP private debt portfolio companies as of 31 December 2018, featuring a selection of key items
[5] Companies having initiated a process for assessing their carbon footprints, including first-time assessments scheduled in 2019

Case study: ZyroFisher focuses on the sustainability of its supply chain

ZyroFisher is a UK-based distributor of cycling clothes and accessories, with more than 50 different brands in its portfolio, including their own well-known brand Altura. Funds managed by Palatine Private Equity are the majority owners of the business, and ZyroFisher's term debt is held by LGT CP managed funds. In addition to 232 employees at four locations in the UK, the company operates a large supply chain across Asia to source hundreds of different products. Managing the ESG implications of its supply chain has been a major focus of its overall ESG efforts, encouraged by its private equity owners and LGT CP. In discussions with ZyroFisher management, we were able to reflect on ESG progress and discuss key priorities for the short and medium term. Their work in ensuring the sustainability of their Altura-branded products illustrates the company's approach.

ZyroFisher distribution center, Darlington, England

For the Altura brand, ZyroFisher works with 10 vendors, who between them operate a multitude of factories in China, Vietnam, Portugal, Taiwan and South Korea. In managing these relationships from an ESG perspective, the company focuses on:

- Vendor sustainability – ensuring that the vendor maintains high standards of supply chain reliability, service and product quality with a verifiable history of delivering according to the agreed terms
- Vendor contracts – ensuring that the vendor adheres to ZyroFisher's code of conduct, which requires adherence to the UN's International Labor Organization (ILO) conventions, a safe and hygienic working environment for employees, cooperation with ZyroFisher's audit and inspection practices
- Employee welfare – checking whether companies treat employees in a fair and ethical way, in terms of working times and salary structures, and whether companies maintain safe working conditions

Potential new suppliers of Altura products face a high bar when they wish to join the supply chain. ZyroFisher completes detailed due diligence on each new factory, checking references from other brands with whom the company works. These activities illustrate that supply management of ESG factors is an active process, requiring companies to make changes in their suppliers when they can no longer be sure that standards are being maintained.

The supply chain has been a key area of focus for ZyroFisher in the last 18 months, as it was identified as the most critical ESG topic the company faced. It is just one item of many on the ambitious ESG agenda that ZyroFisher and its owners have set for the years to come.

Hedge funds

Engagement starting to pay off – with the help of better ESG data

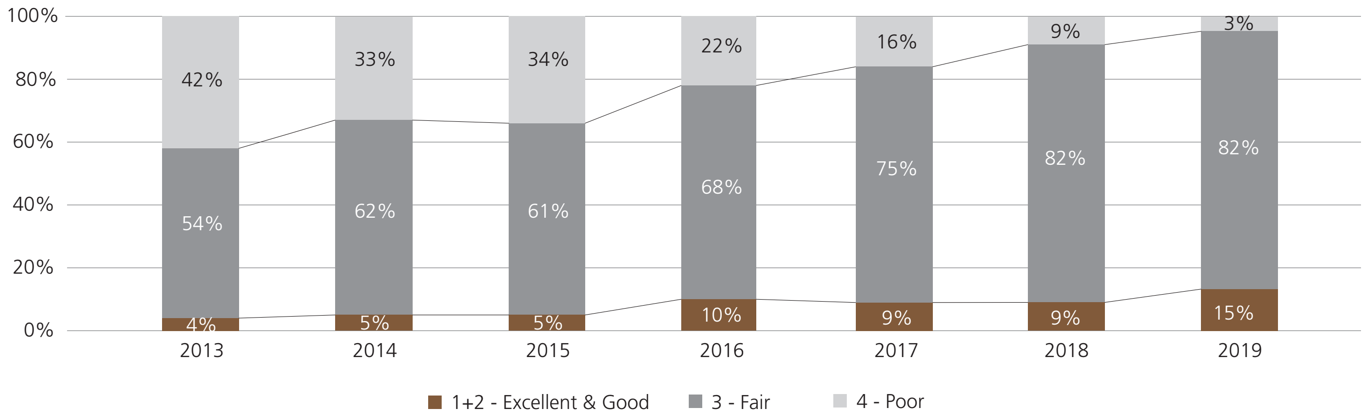
The hedge fund industry has made further progress in integrating ESG into investment decision-making and embracing the sustainability topic over the last 12 months. While there remain many challenges to ESG integration into certain hedge fund and other alternative investment strategies, our engagement with managers has generally been met with support and creative collaboration.

One thing driving progress, besides the push from asset owners, is the greater availability of quality ESG data on public market companies. It seems as if the race has started among the large data providers to deliver detailed information on all aspects of ESG. Coupled with continued progress in the area of big data, the new data sets allow for much better ESG analysis, as well as enabling quantitative hedge fund managers to identify strategies building on correlations between corporate ESG data and price developments.

A number of managers in our portfolio have taken up this challenge and have developed models that integrate ESG company data into a corporate valuation model, driving stock selection on the long and the short side. Such managers tend to receive high ratings in our annual ESG assessment, as they set new standards for ESG integration. We elaborate on this further in the case study later in this section.

Finally, it was encouraging to see that managers did not let the challenging market environment for hedge funds slow their progress on ESG innovation. Rather, it was seen as a way to substantiate the value proposition for clients.

ESG ratings by number of managers



Source: LGT Capital Partners

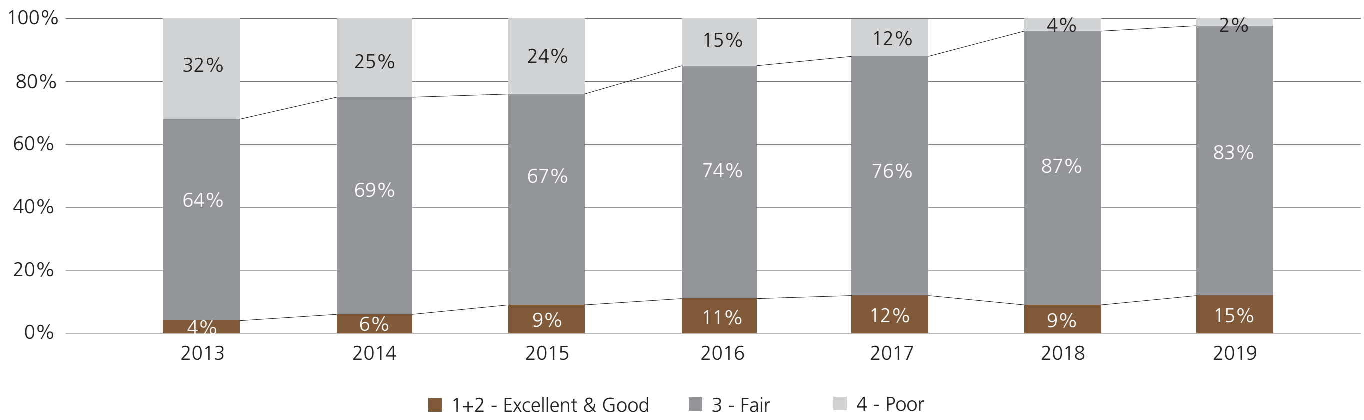
Current ratings and long-term development

The results of our 2019 ESG assessment of hedge fund portfolios show progress among almost all types of managers. While hedge fund managers are still less likely to receive our top ESG ratings (1 or 2) than other managers of liquid assets, the arrival of ESG-oriented quantitative equity managers opens new possibilities. Many of them will be well positioned to receive our top ratings as their ESG offerings evolve.

This year's assessment of hedge fund managers shows an increase in the proportion of top-rated managers (rated 1 or 2) to 15%, up from 9% last year. At the same time, the assets invested by us with those managers rose to 15% of total hedge fund assets, up from 9% last year. For the first time, we have given a quantitative equity manager an ESG rating of 1, based on the strength of its new dedicated ESG offering, which is highlighted in the case study that follows. The sophistication of the manager's approach to integrating ESG criteria into stock selection justified the top rating, and we take it as an encouraging sign of what is possible on ESG in the industry.

Similar to last year, the vast majority of our hedge fund managers, 82%, are rated 3, and we invest 83% of our hedge fund assets with such managers (versus 87% last year). The changing proportions are the result of several managers improving their ratings, as well as the overall number of managers decreasing during the reporting period. We continue to reduce the number of hedge fund managers with the lowest ESG rating, so we now only have one manager rated 4, down from four such managers last year. We have also reduced the amount of assets invested with these managers to 2%, down from 4% last year. The last remaining 4-rated manager operates an Asian relative value fund, in which they have found it difficult to develop a valid ESG framework for the investment strategy.

ESG ratings by AuM



Source: LGT Capital Partners

ESG ratings by hedge fund style

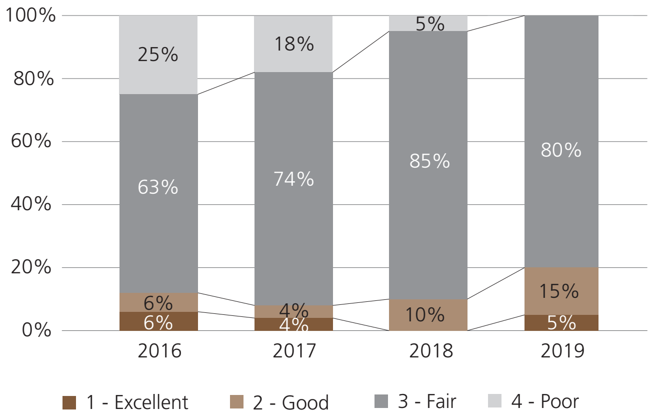
Equity-related strategies (event driven and long/short) have improved significantly since last year, with 20% of managers rated either 1 or 2, up from 10% last year. We were also able to completely eliminate 4-rated equity managers from our approved list, which stood at 5% last year. The general improvement in ratings within this group of managers is being driven in part by the ESG efforts of our quantitative equity managers, who are increasingly able to leverage high-quality ESG data in their investment strategies.

We have also observed a gradual improvement in the ratings of relative value and CTA/macro managers, who typically pursue investment strategies that are difficult to fit into a coherent ESG framework. Still, the continued engagement we have had with them has corresponded with more of them subscribing to the PRI, which is usually an important first step of an ESG journey. One global CTA manager in particular was very explicit in its ESG policy statement about the role of CTAs in well-functioning financial markets, as they enable commodity producers and others to hedge their long exposure to commodities. While we concede that there is a fine line between creating liquid markets and enabling speculation, we think it is encouraging that such managers are engaging on the topic.

Regional considerations

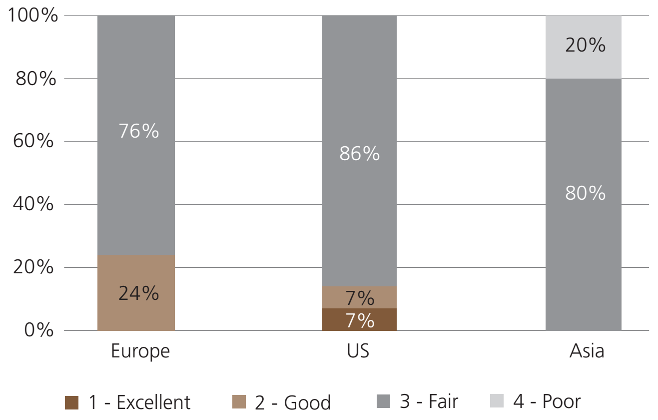
Like in previous years, we observe noticeable regional differences in the extent to which managers engage on ESG. The breakdown of ESG ratings by geographic region suggests that the ESG topic is slowly gaining relevance in the US, with 14% of managers there now rated 1 or 2, whereas no US managers had achieved such ratings last year. Europe remains unchanged, with 24% still rated 1 or 2, while Asia continues to trail with no managers achieving our top two ratings.

ESG ratings of equity long/short managers



Source: LGT Capital Partners

ESG ratings by geography



Source: LGT Capital Partners

DutchPowerCompany, canal and river cleaning equipment, Netherlands

New hedge fund strategy incorporates ESG "leaders" and "laggards"

In last year's ESG Report, we sketched out a new concept for a long/short hedge fund portfolio with an ESG focus. We wanted to bring the ESG know-how we have acquired over the years with our sustainable equity portfolios to a hedge fund solution. The portfolio would use ESG as an important criterion for selecting companies with strong ESG profiles, while shorting those that are weak on ESG.

We are pleased to report that we have found a partner to implement such a strategy. Arrowstreet Capital is a Boston-based asset manager focusing on quantitative investing in equity markets, which manages over USD 90 billion on behalf of investors globally. The firm employs a quantitative investment process that is well suited to incorporating ESG considerations in a systematic and measurable way. Over the course of 2018, we held discussions with them about how to develop an ESG-focused long/short equity portfolio. As a result of this collaboration, they are in the process of launching a fund that will integrate ESG factors in its stock selection process, and LGT CP will act as a seed investor.

Enhancing the ESG profile of the portfolio

The starting point is Arrowstreet's existing market neutral strategy, which is then adapted to include ESG factors in its investment decision-making. It aims to significantly improve the ESG profile of the portfolio without significantly altering the strategy's expected risk and return. Towards this end, Arrowstreet introduced stock selection criteria that favor long positions in companies with desirable ESG characteristics, as defined by externally sourced ESG ratings. It also overweights short positions in companies that are weak on ESG.

The ratings are based on thousands of data points across more than 30 key issues, which show the ESG risks and opportunities that a company faces. Companies are given ratings on a scale that includes Excellent, Good, Average, Low and Poor relative to their industry peers.

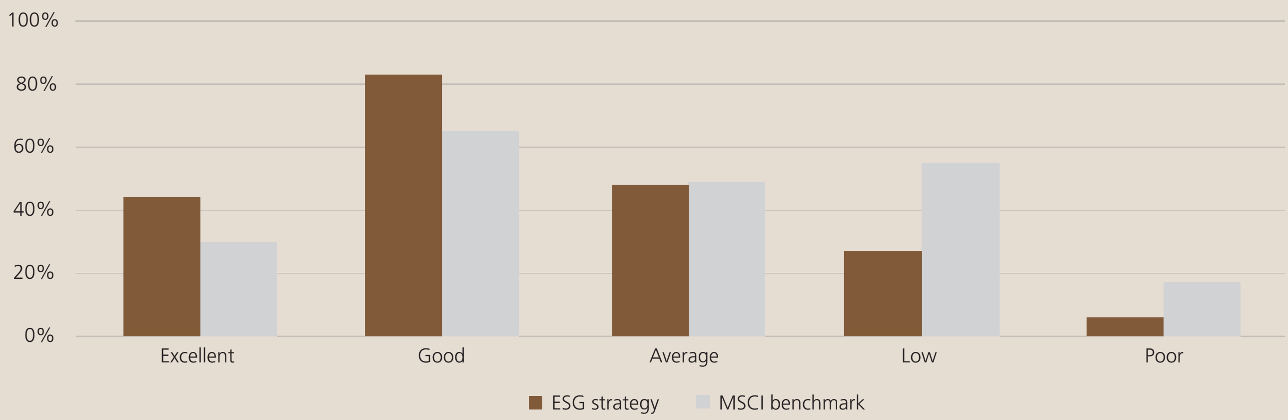
The result is a portfolio that is heavily weighted towards long positions in companies that are ESG leaders as well as short positions in ESG laggards, as shown in the charts. The comparison with the MSCI ACWI Investable Market Index shows the extent of the ESG strategy's overweight in the two kinds of positions.

Key takeaways

The key takeaway from this analysis is two-fold. First, it is possible to improve the portfolio ESG score significantly, while maintaining a diversified portfolio. This is explained by the fact that Arrowstreet can select from a very broad equity universe, allowing them to select stocks with very similar attributes and better ESG scores. Second, the analysis confirmed that overweighting long positions in ESG leaders and short positions in laggards is an effective way of building up an ESG-focused portfolio without resorting to exclusion lists, which can potentially constrain the investment universe in detrimental ways.

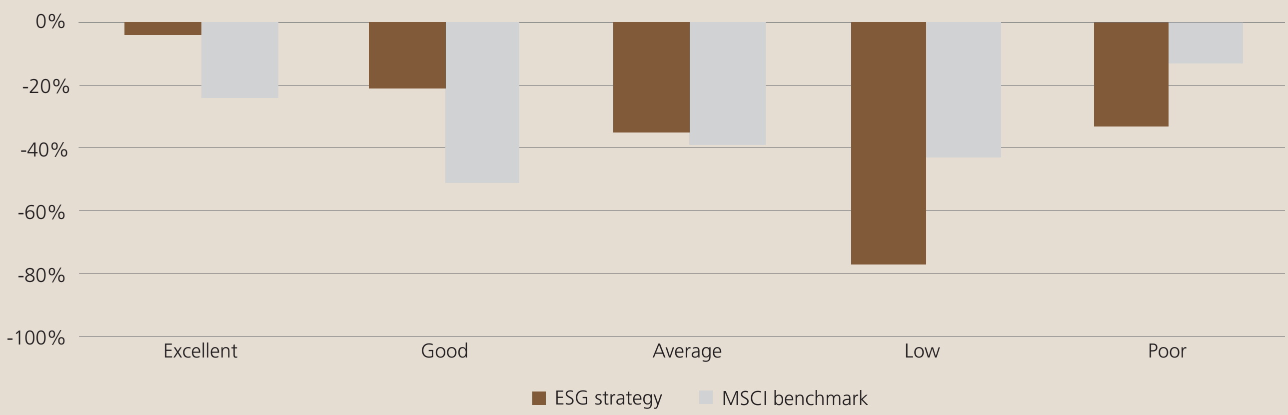
We at LGT CP believe that these results are very encouraging, so we are pleased to seed Arrowstreet's first market neutral strategy with an ESG focus.

Long portfolio weight by ESG rating



Source: LGT Capital Partners/Arrowstreet Capital

Short portfolio weight by ESG rating



Source: LGT Capital Partners/Arrowstreet Capital

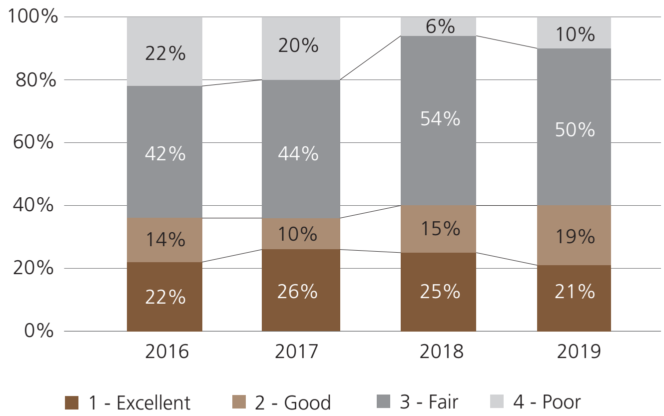
Long-only managers

We see a positive long-term trend in the ESG practices of our long-only managers (equity, REIT, insurance-linked strategies, high-yield and commodities), as the share of managers rated 4 has decreased from 22% in 2016 to 10% today. Over the same time period, the proportion of managers rated 1 or 2 has increased from 36% to 40%. Looking shorter term, the chart also shows an apparent dip in the proportion of managers rated 1 or 2 since last year, and a corresponding increase in those rated 4. This is the result of several new managers focusing on insurance-linked strategies (ILS) entering our portfolios in 2018. Most of them have not yet started actively integrating ESG into their investment strategies, resulting in low ESG ratings within our assessment framework. This is in line with what we see more broadly in the ILS asset class, where there is still little agreement on how ESG considerations should be applied. We view the new ILS managers as an opportunity for engagement to see how we can raise the bar on ESG within the asset class.

When adjusting for the effect of the new managers, the ESG ratings within our long-only portfolios are largely in line with last year. The same managers who were doing good work on ESG last year, as indicated by their ratings of 1 or 2, are still in the portfolio.

Beyond the shifts in manager ratings, we have seen in our multi-manager portfolios individual instances of ESG engagement paying off. For example, during the reporting period the team decided to add trade finance as a new investment strategy in the portfolio, which set off the search for high-quality managers that also integrate ESG to their investment decision-making. This led to our collaboration with TransAsia, a Hong Kong-based manager operating in a market segment that has historically seen little focus on ESG. TransAsia, however, has made ESG integration a priority, as described in the manager interview that follows.

ESG ratings of long-only managers



Source: LGT Capital Partners

Interview: Asian direct lender focusing on trade finance makes ESG a priority

TransAsia Private Capital is a Hong Kong-based direct lending manager specializing in trade finance solutions to Asian middle market enterprises. They have made ESG a priority in their investment approach, so we spoke with TransAsia managing partner, Jiffriy Chandra, to get his insights on the topic.

Jiffriy Chandra
Managing Partner
TransAsia Private Capital

LGT CP: You strengthened your responsible investment approach and updated your policy last year. Could you elaborate on some of the reasons for doing this?
Chandra: It has always been TransAsia's corporate DNA to conduct business in a socially, environmentally, and ethically responsible manner. We know that to be successful in the long term, we have to build a sustainable business that is both a profitable investment proposition and an effective driver of job creation and long-term sustainable economic development. It was clear from the start that our borrowers are both the foundation and the building blocks for sustained economic growth.

We had set the objective of developing a formal responsible investment initiative after our assets under management had exceeded USD 1 billion. With the addition of team members with responsible investing backgrounds, we were able to analyze the implications of responsible investment for trade financing and revise our investment policy accordingly.

LGT CP: Could you please share some insights on how you incorporate responsible investment considerations within trade finance?
Chandra: TransAsia believes that a holistic assessment of the borrower is critical to understanding the potential risk and return of the investment. In addition to carrying out financial analysis during the initial credit assessment, we ensure that a borrower's business does not fall under the International Finance Corporation's (IFC) Exclusion List for prohibited industries and economic activities. We also evaluate the company's ESG policies and practices relating to its stewardship of the environment, treatment of employees, local suppliers, contractors and local communities. In our assessment, we analyze evidence of the company's intent to create positive economic, social, and/or environmental impact in the course of carrying out its business activities. This is based on various criteria specific to the UN Sustainable Development Goals (SDGs).

By developing this screening strategy, which continues to evolve, we are in a better position to track the responsible business aspects of our borrowers. It has also enabled us to, for example, structure an impact mandate for one client by filtering the borrowers and/or transactions on specific criteria.

LGT CP: Are there any challenges of implementing responsible investment criteria and how do you overcome them?
Chandra: Due to differences in local practices and varying industry benchmarks, our approach to implementing responsible investment criteria is largely qualitative at this stage. Aside from ensuring the borrower adheres to the IFC Exclusion List, we have created our own framework for assessing global and local economic, environmental, and social contexts, as well as international and domestic regulatory standards and best practices. During our initial

assessment, we screen the borrower with this set of criteria, and we assess the borrower's commitment to international ESG best practices and whether it has sustainable and ethical business policies and practices in place. This involves active engagement between TransAsia and the borrower.

LGT CP: What is your experience concerning responsible investment with clients/partners?

Chandra: Through our work of managing a global impact mandate with TriLinc Global, we have had the opportunity to refine our reporting and investment standards to track and report on baseline impact metrics. There is no one-size-fits-all approach, so we have had to gather the appropriate data to evaluate each borrower's policies and practices; and to assess, monitor and report on specific impact results. Although this takes more time and resources, TransAsia has been able to build on our existing framework – which continues to evolve – and incorporate new findings into our strategic decision-making process.

LGT CP: What do you see as the big driver for responsible investing considerations? Has it been management led or investor led? Who's really driving the key issues?

Chandra: Truth be told, everyone has a stake in responsible investing in the long run and as such, we see that interest is coming from all the stakeholders: from our firm principals and family, to our staff, our investors, our investors' investors, the regulators, etc. While initially driven by investors with a responsible investment mandate, the trend is now common for the entire market. TransAsia plays an important role, in particular in Asia, in bridging the needs of the investor and borrower as part of our relationship management and responsible investment policy evaluation.

Public equity and fixed income

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 like poverty, hunger, health, education, climate change, gender equality, water, sanitation, energy, environment and social justice. Achieving them is estimated to require investment of USD 5 to 7 trillion per year until 2030.

The SDGs themselves were designed as a set of environmental and social goals defined by governments and nongovernmental organizations, not as an investment framework. We have been working on an approach to make the SDGs investable by developing a framework that assesses the impact of companies on achieving the SDGs. It takes a broad approach to assessment by incorporating information on companies' products and services. In doing so, we leveraged an existing tool, our ESG Cockpit, which is a proprietary system for assessing public companies on their ESG attributes. Assessing companies on their SDG impact was a natural extension of what the tool already does on ESG.

Assessing companies for SDG impact

The starting point for our framework is the 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 broadly all of the possible business activities of listed companies. Based on the pre-assessment of the data provider, we then attributed an 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.[6] The table shows an example for a utility company.

Assessing a utility company's impact on Climate Action (Goal 13)

Product category	Impact measure	x	Revenue share (% of revenue)	=	Contribution to total impact
Energy production (renewable)	10		32.0%		3.20
Energy production (hydro)	3		13.0%		0.39
Coal-fired energy generation	-10		24.0%		-2.4
					1.19

Source: LGT Capital Partners

[6] Revenues pertaining to one specific SDG do not comprise 100% of company revenues

The company used in the example has an overall impact of 1.19, which can be considered its "SDG footprint" on Goal 13. Energy production from renewables has a strong positive impact, given its sizeable revenue share, but this is partly offset by producing energy from coal, which also contributes 24% to total revenues.

Using this framework, we can derive an overall SDG footprint of individual companies by calculating their impact on each of the 17 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 impact of a benchmark portfolio.

The footprints of companies in our sustainable bond and equity portfolios reveal some insights on how companies impact the SDGs:

- Certain SDGs are more strongly affected than others – Goal 3 (Good Health & Wellbeing), Goal 7 (Affordable and Clean Energy) and Goal 13 (Climate Action) are much more impacted by the companies in our portfolio than the other goals. For example, companies in the health care and pharmaceutical sector tend to make a significant positive contribution to Goal 3 because their business models are so closely aligned with the goal. Similarly, producers of renewable energy and providers of clean technology positively impact Goals 7 and 13, again because of the close fit between their business activities and the goals themselves. At the same time, producers of fossil fuels generally have a strong negative impact on Goal 13.
- Companies vary widely in their SDG impact – some, such as our renewable energy example, have a strong impact on just one or two SDGs (Goals 7 and 13), so they can be viewed as "pure play" SDG investments. Other companies, such as large food producers, may have a very diverse set of business activities that have a relatively small impact on many different SDGs.

Applications of our SDG framework

The framework we have developed enables us to analyze the current SDG footprint of an investment portfolio, which allows an investor to understand both the positive and negative SDG impacts of their investment decisions. In doing so, it enables an investor to identify allocation decisions that could increase the portfolio's positive impact on specific SDGs or the goals overall. This does not have to be limited to dedicated sustainable investment portfolios, but can also be applied to larger, generalist portfolios that currently do not incorporate sustainable considerations. Investors in such portfolios could use the framework to make adjustments in security selection to enhance the SDG impact, while preserving the overall strategic allocation.

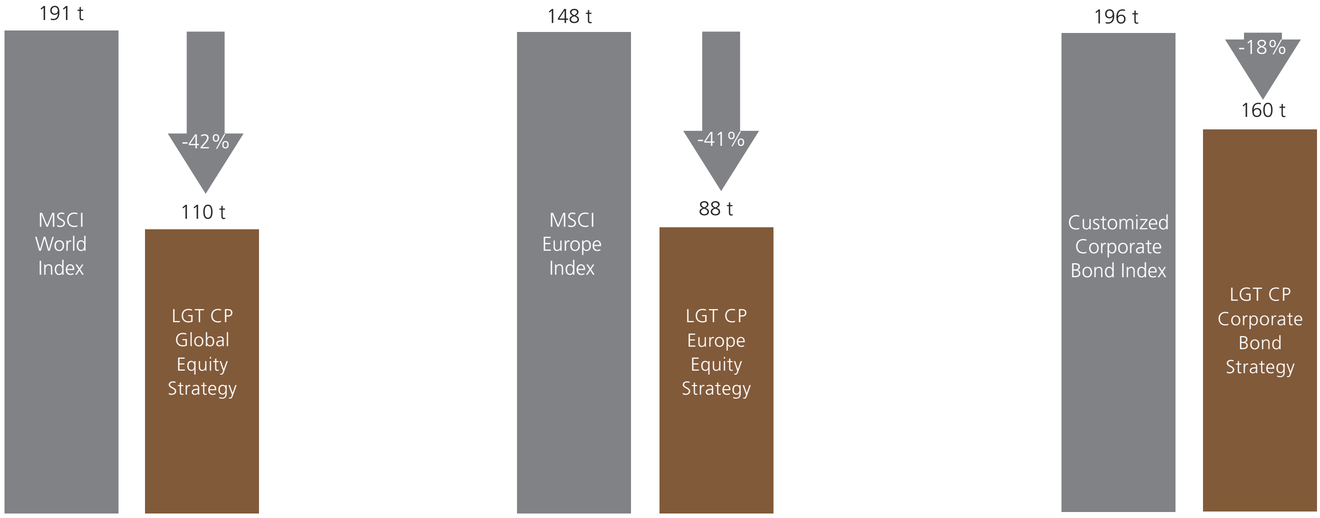
Substantially lower level of carbon emissions than the benchmark

As investors have a strong interest in understanding the carbon footprint of their portfolios, we measure this metric for a selection of our Sustainable Investment Strategies. We also compare these footprints with those of their respective benchmark indices, so our investors can better understand the environmental impact of their investment decisions. The chart shows the aggregated normalized greenhouse gas emissions for three different strategies against their respective benchmarks, with carbon footprints that are 18% to 42% lower than the benchmarks.[7]

As an example, our Global Equity Strategy generates 110 metric tons of carbon emissions, while the corresponding benchmark figure is 191 metric tons, a difference of 81 tons. Much of this difference results from company selection within the utilities sector, by investing in companies focused on renewable energy and underweighting those that generate power from fossil fuels. Another significant amount of carbon emission savings are realized through our stock selection decisions in another critical industry, energy. Here, we currently focus on a Swedish and a Japanese energy company, both of which exhibit very low levels of carbon emissions compared to their peers.

Our approach illustrates that it is possible for investors to be well diversified in terms of industry exposure, with significantly reduced carbon emissions from their portfolio.

Metric tons CO_2 equiv./USDm



Source: ThomsonReuters ESG, LGT Capital Partners. All data in metric tons CO_2 equiv./USD 1 million company sales per calendar year. Data as of 31 March 2019

[7] Source: LGT Capital Partners/Data as of 31 March 2019

Improving SDG footprint while retaining diversification and attractive risk-adjusted returns

The approach to assessing SDG impact described in the preceding pages can be applied to a diversified "plain vanilla" portfolio to improve the SDG footprint, while retaining diversification and attractive risk-adjusted returns. Our starting point is the MSCI World Index, comprising 1,600 stocks. As the spider chart shows, the impact of the MSCI World on the SDGs in most cases is negative or zero. The only area in which these companies in aggregate have a significant positive effect is on SDG 3 (Good Health & Well-Being), due to the large exposure to pharmaceutical and health care companies. A smaller positive impact is achieved on SDG 11 (Sustainable Cities and Communities), driven by public services (utilities) companies, public transport and real estate.

In short, there is a significant opportunity to improve the SDG impact potential of a globally diversified portfolio, without fundamentally changing the strategy. In order to test this thesis, we used our SDG impact framework to identify the 500 stocks within the MSCI World Index with the highest SDG impact, and then we refocused the portfolio on just these stocks. We kept the industry weightings identical to those in the original index in order to make a fair comparison, with the goal of keeping diversification high and tracking error low. We also did not do any portfolio optimization based on risk and return, as the 500 stocks were selected solely based on their SDG impact.

SDG 500 impact comparison

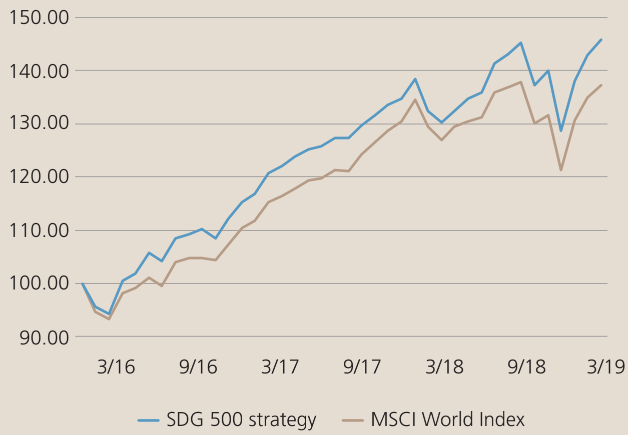
Source: LGT Capital Partners, un.org

The spider chart shows a significant increase in positive impact on most of the SDGs. Whereas the MSCI World negatively affects seven different SDGs, the SDG 500 strategy has only a small negative effect on Goal 14 (Life below Water). The biggest improvement with the optimized strategy comes with Goal 7 (Affordable and Clean Energy) and Goal 13 (Climate Action), topics that are very high on the agenda of many investors.

Critical to many investors will be how these changes affect risk-adjusted returns. In this case, the SDG 500 portfolio shows increased returns over both a one and three-year time frame, as shown in the table.[8] Moreover, it does not result in a material increase in the risk profile over either time frame. It demonstrates that an investor can improve the SDG impact profile of a portfolio, while also enhancing risk-adjusted returns.

An important benefit of this approach is that it allows investors to calculate a SDG baseline for their current portfolio, showing exactly how their portfolio helps, or hinders, achieving the SDGs. This enables them to plot an actionable and targeted path for improvement for the future. For example, a board of trustees or an investment committee can clearly assess where their portfolio stands on the SDGs and make decisions on how to improve either their overall footprint or prioritize specific SDGs, with clear timelines and milestones.

Performance of SDG 500 strategy vs. MSCI World[9]



Performance (total return)	**1 year**	**3 years**
SDG 500 strategy	11.8%	44.8%
MSCI World	7.9%	39.3%
Outperformance	**3.9%**	**5.5%**

Risk	**1 year**	**3 years**
SDG 500 strategy	13.5%	9.4%
MSCI World	13.2%	9.2%

[8] Source: LGT Capital Partners, data as of 31 March 2019. Past performance is not a guarantee, nor an indication of current or future performance. Returns may increase or decrease as a result of currency fluctuations

[9] Source: LGT Capital Partners, data as of 31 March 2019

Green Bonds – a key instrument in liquid markets for achieving the SDGs

While green bonds still represent only about 1% of the global bond market, the asset class is growing rapidly, with issuance expected to reach USD 200 billion by 2020. At LGT CP, green bonds are a key element of the firm's investments in its Sustainable Bond Strategy, representing up to 46% of some portfolios.[10]

Initially dominated by development banks, the variety of green bond issuers has substantially increased during the last few years. In 2018, 25% of issues were by state and state-related entities, 30% by financial issuers, 18% by corporate issuers and 9% by development banks.[11]

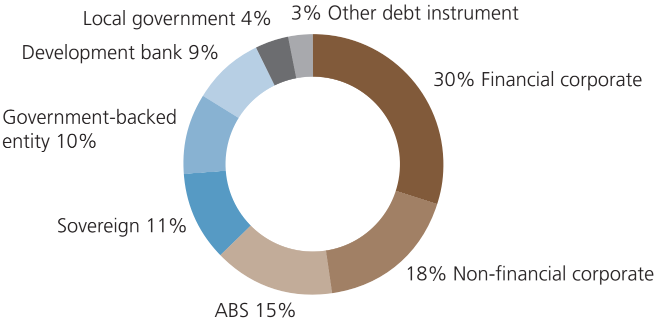
The geographic diversity of green bonds has also increased in recent years. In 2018, European issuers represented 40% of global issuance, followed by Asia-Pacific with 29% (of which 19% was from China) and the US with 21%. Issuers from 46 different countries demonstrate the global reach of the asset class, which includes newcomers as far flung as Iceland, Lebanon and New Zealand.

The use of proceeds is changing as well. Over the last couple of years, the focus on renewable energy projects has been declining, while green buildings, sustainable transportation and clean water have gained importance. Even within clean energy projects, there is a shift from solar towards wind power, electric vehicles and batteries.

Bringing greater transparency and consistency to the market

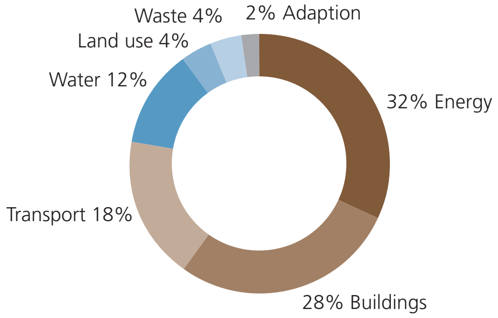
As the market for green bonds has developed, market participants have begun demanding greater consistency and transparency on how bonds are classified. They have sought greater clarity on how bond proceeds are used to address specific environmental concerns. The work of the European Union's Action Plan for Sustainable Finance is one approach for addressing these concerns. It provides for the development of a unified classification system, or taxonomy, for what can be considered an environmentally sustainable economic activity. The taxonomy should enable investors to make better informed allocation decisions, in terms of the type of impact they are trying to achieve. There is also scope for harmonizing the new taxonomy with the SDGs, which would enable investors to target specific SDGs with their allocation decisions.

Diversity of green bonds in 2018 by type of issuer



Sources: Climate Bonds Initiative, Moody's Investors Service

Diversity of green bonds in 2018 by industry sector



Sources: Climate Bonds Initiative, Moody's Investors Service

[10] As of 31 March 2019
[11] Moody's: 2019 Global Green Bond Market Outlook

Social, sustainable and blue bonds still in their infancy

New kinds of "mission-oriented" bonds have emerged in the last three years, which are considered the offspring of green bonds. For example, social bonds are used to finance projects like basic infrastructure, access to health care and education or affordable housing, in the same way that green bonds support projects to benefit the environment. These bonds saw issuance of USD 14 billion in 2018.

We have also seen the emergence of sustainable bonds, with USD 17 billion of issuance in 2018, which are used to finance projects with both social and environmental targets. Occupying a smaller niche are blue bonds, which is a new breed promoted by the World Bank. Blue bonds are designed to finance marine and ocean-based projects that have positive environmental, economic and climate benefits. Whether social, sustainable or blue, these bonds provide investors with more choice in the types of projects they can support with their sustainable investment decisions.

Towards achieving the SDGs

Achieving the SDGs by 2030 will require a significant amount of private capital, and green bonds along with their offspring can play an important role in achieving them. The evolution of green bonds has shown that large amounts of capital can be raised to target specific environmental outcomes, and this is likely to increase as standards for transparency and reporting improve. Green, social, sustainable and blue bonds can be mapped to specific SDGs, so we expect them to play an increasingly important role in investors' SDG allocation decisions.

Long-held commitment to ESG

LGT CP is a leading alternative investment specialist with over USD 60 billion in assets under management and more than 500 institutional clients in 37 countries. An international team of over 450 professionals is responsible for managing a wide range of investment programs focusing on private markets, liquid alternatives and multi-asset class solutions. Headquartered in Pfaeffikon (SZ), Switzerland, the firm has offices in New York, Dublin, London, Paris, Vaduz, Dubai, Beijing, Hong Kong, Tokyo and Sydney.

LGT CP has a long-held commitment to incorporating ESG considerations into its client programs and its business overall. Since 2003, many of our programs have had a responsible investment clause written into their governing documents, authorizing us to exclude investments that are substantially exposed to arms-related activities, violations of human rights, irresponsible treatment of the natural environment or other non-ethical conduct of business. Consideration of ESG issues is an integral part of our investment process, as our investment teams are responsible for taking into account ESG considerations when performing due diligence on investments. Any opportunity that is pursued will have been vetted for such issues.

LGT CP has been a signatory to the Principles for Responsible Investment (PRI) since 2008. In 2018, Tycho Sneyers, a managing partner and chairman of the firm's ESG Committee, joined the board of directors of PRI. LGT CP also participates in the Carbon Disclosure Project (CDP), the European Sustainable Investment Forum (Eurosif), the Montreal Carbon Pledge and Institutional Investors Group on Climate Change (IIGCC).

In 2018, the PRI awarded LGT CP scores of A or A+ across all modules evaluated in its annual RI Assessment Report.

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