Capital Partners
your partner for alternative investments

ESG Report 2022

“This report explores how ESG is being integrated into our portfolios, spanning private markets, ILS, hedge funds, public equities and fixed income.”

Front cover: Porvoo refinery, Finland, Neste green bond focused on renewable fuel

Contents

Introduction

What a difference a year makes. A year ago, the world was in the midst of fighting a global pandemic. And just when it looked like many countries had overcome the worst of the health crisis, the Russian invasion of Ukraine in February 2022 shocked the world.

First, we would like to express our heartfelt support to the people of Ukraine and everyone affected by the war. LGT Capital Partners (LGT CP) has made a substantial financial donation to various humanitarian organizations supporting victims of the war, and we hope that peace will return to the region as soon as possible.

After decades of increasing globalization, we are now facing a very different macro-economic and geopolitical environment. The strong ties of economic interdependence that kept relations between the world's superpowers relatively friendly have now fundamentally changed. The impact on people and planet is significant now and over the long term. Importantly, it will be substantially harder to make progress in achieving the sustainable development agenda. The steep increase in food prices is just one example of how low-income economies, especially, will struggle even more going forward. Similarly, as countries spend substantially more on defense, it will undoubtedly have a negative impact on healthcare spending, education, foreign aid and many other areas that are crucial from a sustainable development perspective.

For all of us active in responsible investing, this new environment leads to big questions. Is it now "responsible" to invest in arms manufacturers, as it becomes clear that countries like Ukraine have a legitimate need to defend themselves? Should we ban all investing in countries like Russia, even if many companies in those countries do not necessarily support their governments' actions?

Answers to these questions are not black and white, and different investors might come to different conclusions. Although it is not the objective of this report to explore these issues, they frame the context of the even more challenging and complex responsible investment environment we are facing today.

The objective of this report is to explore how we are integrating ESG into our portfolios, spanning private markets, insurance-linked strategies (ILS), hedge funds, public equities and fixed income. We find that the managers and counterparties with whom we partner are continuing to deepen their ESG practices. This ranges from enhancing approaches to managing climate change risk and diversity and inclusion (D&I) issues to more deeply embedding ESG analysis in investment decision-making.

Within our direct portfolios, we are raising the sustainability bar. For example, in private equity, we have joined the ESG Data Convergence Project, an industry-wide initiative to accelerate the reporting on specific key performance indicators (KPIs) at the portfolio company level. In private debt, we have fully integrated climate resilience as a risk factor in our investment process to enable deeper insights and to ensure more robust portfolios. For our public equity strategies, we have further refined our approach to carbon budgeting to help achieve net zero emissions by 2050. Meanwhile, in our fixed income portfolios, we are increasing our focus on sustainable-linked bonds to broaden the investable opportunity set, while also applying an in-depth ESG assessment of sovereign issuers in emerging markets.

We have committed to reducing the carbon footprint of the USD 18 billion LGT endowment, which we have managed for more than 20 years. The initiatives and efforts undertaken so far have ensured that the portfolio is well aligned with the Paris Agreement and on the path to net zero.

We are also responding to the growing sustainability requirements of regulators, especially the Sustainable Finance Disclosure Regulation (SFDR) of the EU. Whether tracking the response of private equity managers to SFDR, assessing the alignment of our ILS portfolios to the EU Taxonomy, or achieving SFDR Article 8 classification for a hedge fund portfolio, we are working to ensure close alignment with regulations.

We hope you find this report insightful and, as always, we welcome your feedback.

On behalf of LGT Capital Partners
Tycho Sneyers

Chairman of the ESG Committee
Member of the UN PRI Board

Facts and figures

392
MANAGERS
ASSESSED ON ESG

47%
OF LGT CP PRIVATE EQUITY MANAGERS
ADDRESS CLIMATE CHANGE

57%
OF LGT CP PRIVATE DEBT PORTFOLIO
COMPANIES TRACK CARBON EMISSIONS

79%
OF ILS INVESTMENTS
ARE CLASSIFIED
"TAXONOMY ALIGNED"
OR "SUSTAINABLE"

LGT SUSTAINABLE QUALITY
EQUITY STRATEGY IS
24.4
METRIC TONS OF CO_2
BELOW ITS BUDGET[1]

LGT ENDOWMENT REDUCED
GHG EMISSIONS BY
30%
IN 2021

[1] per USD 1 million invested

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 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 areas 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 the Principles for Responsible Investment (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 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 areas, 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	The 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	The 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	The manager demonstrates some commitment to ESG or has begun some initiatives, but lacks institutionalized processes.
4	The manager demonstrates little or no commitment to ESG.

Source: LGT Capital Partners

Private equity

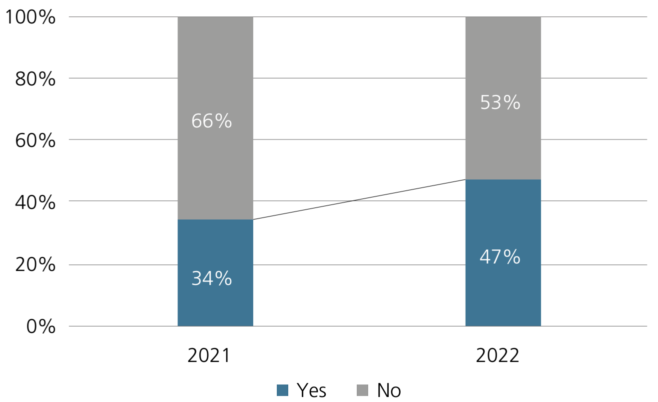
This year we look again at ESG outcomes in our private equity portfolios through the lenses of climate change, D&I, the ESG ratings of managers and KPIs of our co-investments. This year's assessment of 303 private equity managers[2] and 55 active co-investments has identified many examples of improvement in ESG practices, which are especially noticeable in the area of climate action.

In particular, we highlight numerous examples of managers that are responding to climate change, D&I and other ESG challenges. We also zoom in on the implementation of European sustainability regulations in private equity.

How managers are responding to the challenges of climate change

In a year when the Intergovernmental Panel on Climate Change (IPCC) published its sixth assessment report, with dire warnings about the pace of global warming, investors' concern for their portfolios has only increased. An increasing number of our private equity managers share this concern. The proportion of them with ESG policies that specifically address climate change has grown by 13 percentage points over the year, from 34% to 47%.

Figure 1: Proportion of managers that address climate change in their ESG policy



Source: LGT Capital Partners

Managers express their commitment to climate action in different ways, with some of our ESG leaders outlining specific targets for their portfolios. For example, one Nordic small and middle market buyout manager has committed to reducing carbon emissions across its portfolio by 50% from the 2019 base year to 2030, or about 6% each year. The manager ultimately targets to achieve net zero emissions by 2050 to support the goals of the Paris Agreement.

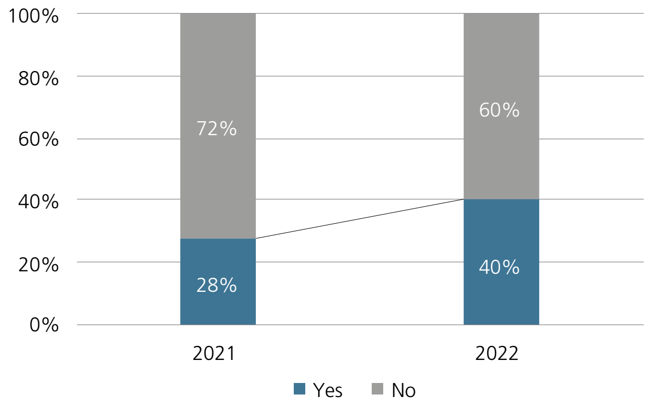
Each company in the manager's portfolio is in turn responsible for defining the most appropriate actions to reduce their carbon footprint based on the analysis performed in cooperation with an external sustainability consultant. Companies are required to report on their ambition, their actions, their carbon emissions (compared to a set base year) and their carbon offsets. It is an ambitious approach that points the way to other managers who may still be developing their climate strategies.

[2] Based on this year's ESG assessment of 303 managers in our private equity portfolios.

We observe an equally large increase in the proportion of managers who have adopted a formal framework for assessing climate change risks (Figure 2), from 32% last year to 43% this year. The overall level of focus on climate change risk varies considerably between the regions, with Europe out in front with 50% of managers assessing climate change risks in their portfolio companies, followed by 40% in Asia and 33% in the US. There is significant variation in the pace at which such frameworks are being adopted in the various regions, as Europe is moving ahead the fastest, with a 12 percentage point increase over last year, compared to increases of 9 and 7 percentage points for the US and Asia, respectively.

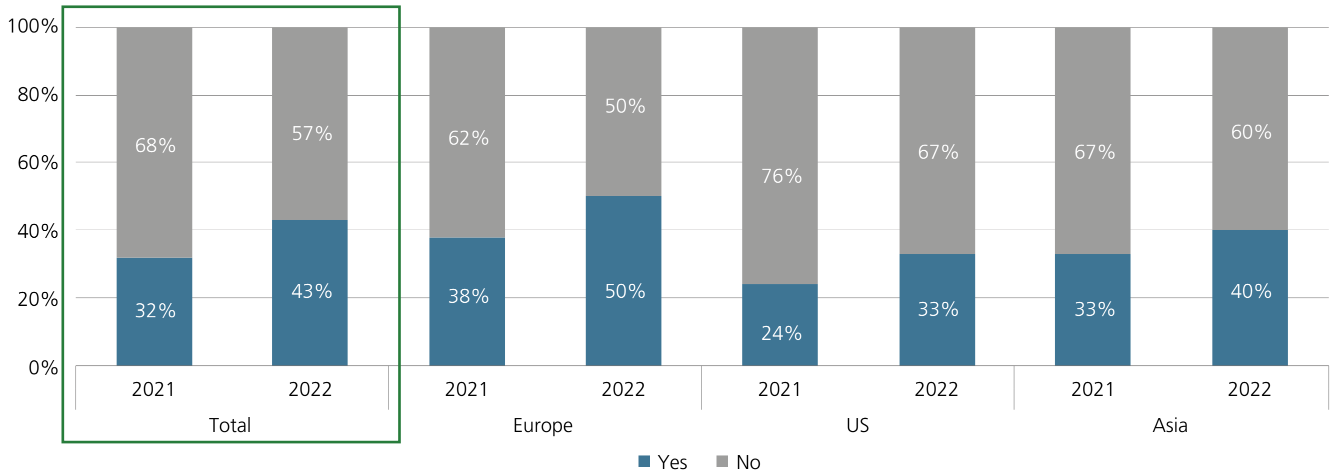
A roughly equal proportion of managers (Figure 3), 40%, actively monitor greenhouse gases (GHG) within their portfolios, which suggests that initial risk assessments are generally followed up with ongoing monitoring. The 12 percentage point rise in the share of managers monitoring emissions since last year demonstrates that the practice is gathering pace.

Figure 3: Proportion of managers that monitor greenhouse gas emissions



Source: LGT Capital Partners

Figure 2: Proportion of managers with a standard framework for assessing climate change risks



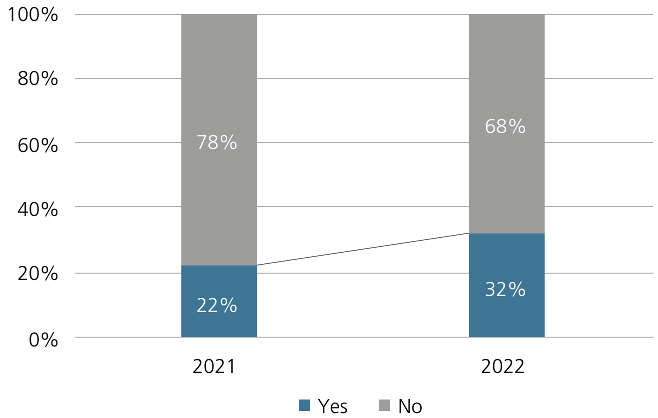
Source: LGT Capital Partners

How managers are assessing climate change risk

Similar to climate change policies, manager approaches to risk assessment and GHG monitoring take many forms. For example, one US middle market buyout manager has recently rolled out an energy and climate scorecard for portfolio companies, which tracks seven different indicators: GHG emissions, energy efficiency initiatives, energy audits, energy consumption measurement, establishment of climate goals, evaluation of climate risk, and accountability for climate management. Initial analysis of results indicates that the majority of the portfolio companies have opportunities to enhance measurement of climate relevant metrics and develop strategies to reduce their carbon footprint. In response, the manager has kicked off a process for selecting an external partner to support this effort, including development of a multi-year low carbon strategy playbook for portfolio companies.

Other managers have not yet introduced formal frameworks for assessing climate change risk, but they are nevertheless taking important steps to understand the issues their portfolio companies face. In one case, a UK middle market buyout manager engaged an external consultant to help assess the financial risks and opportunities presented by climate change for their portfolio companies, using the lens of physical and transition risks recommended by the Task Force on Climate-related Financial Disclosure (TCFD). Over a series of workshops with portfolio companies, the consultant presented the implications of global temperature increases of 2°C and 4°C. The two scenarios were applied to each portfolio company to identify their most prominent vulnerabilities and opportunities. The findings showed that the portfolio overall is resilient in the face of climate change, but a number of opportunities and some risks were identified, which the manager is now working to address.

Figure 4: Proportion of managers that report on climate change activities



Source: LGT Capital Partners

How managers are reporting on climate change

Increasing efforts to measure and monitor climate change risks are enabling many more managers to report on their climate change activities. As of this year's assessment (Figure 4), 32% of managers are now doing so, which represents a 10 percentage point increase over last year.

The Nordic buyout manager mentioned earlier provides an example of one of the many different forms this reporting takes. The manager monitors GHG across Scope 1, 2 and 3 for all investments, and in their annual ESG Report, they disclose GHG emissions per portfolio company as well as comparisons of the carbon intensity of the portfolio against respective sector benchmarks for the last two years. They also provide the share of portfolio companies' use of energy that comes from renewables over the last two years.

Industry initiatives

It is clear that the private equity industry is becoming more active on climate change. For example, the Institutional Investors Group on Climate Change (IIGCC) recently developed a guide for private equity managers and investors, which provides a blueprint for implementing net zero portfolio commitments. The guidance covers metrics, targets and implementation actions relevant to both managers and investors. In a similar way, the Science Based Targets initiative (SBTi) has published a guide for the private equity sector with advice on science-based target setting and implementation.

Another welcome industry-wide initiative for enhancing ESG reporting is the ESG Data Convergence Project, which was launched in 2021 by leading private equity managers and investors. The project aims to streamline the private equity industry's historically fragmented approach to ESG reporting by creating a consistent set of performance-based, comparable ESG metrics on private companies. The initiative will allow managers and portfolio companies to benchmark their current position on a range of ESG metrics, so they can work toward ESG improvements in a transparent and comparable reporting framework. LGT CP has joined the initiative and is reporting on the key metrics in our co-investment portfolio. We are also engaging with managers and promoting further adoption of the project.

Case study: Responding to the challenge of climate change

Astorg is a global private equity firm with EUR 15 billion of assets under management. With offices in London, Paris, New York, Milan, Frankfurt, and Luxembourg, Astorg's investment team comprises 66 professionals.

ESG embedded in investment processes

Astorg strongly believes responsible investment can lower risk and increase financial returns for their funds and portfolio companies while also benefiting broader society. This conviction is demonstrated in the way Astorg fully integrates ESG considerations into its investment policies and processes, which has resulted in an ESG rating of 1 for the second consecutive year.

Focus on climate-related risks and opportunities

Throughout the investment cycle, Astorg puts a strong focus on addressing climate-related risks and opportunities. To guide its actions, Astorg developed a dedicated climate policy in 2019. The policy is aligned with the recommendations of the TCFD, covering governance, strategy, risk management and monitoring. Astorg specifically assesses how existing and potential new investments are affected by climate-related physical and transition risks. The assessment of physical risks relies on the World Risk Index, which indicates the level of risk based on geographic location. For transition risks, all four categories suggested by the TCFD are assessed. Astorg analyzes the probability for the risk to occur and the impact it could have on the business. Based on this assessment, an average risk score is calculated for each company for the purpose of benchmark analysis.

Continuous monitoring of carbon emissions

Once invested, Astorg carries out an annual assessment of all its portfolio companies' policies and actions on climate change, with the ambition of improving the companies' performance over time. Supported by specialized third-party providers, Astorg monitors the carbon footprint of each portfolio company. Carbon footprints cover Scope 1 and 2 emissions for all companies and the most material Scope 3 categories, depending on each company's activities. This forms the basis for the definition of a carbon reduction trajectory. Figure 5 shows a breakdown of Astorg's portfolio Scope 1 and 2 GHG emissions per source.

Commitment to science-based reduction targets

In 2021, Astorg became one of the first private equity managers to have its GHG emission reduction targets validated by the Science Based Targets initiative, underscoring the firm's ambition to lead on climate action. Astorg has committed to reducing its absolute operational (Scope 1 and 2) emissions by 50% by 2030 (compared to 2020). It has further committed to setting science-based targets for 30% of its private equity investments (by invested capital) by 2025 and 100% by 2030. Astorg's investment-related targets cover 100% of total investment and lending activities as of 2021.

To achieve its investment-related targets, Astorg will implement the following actions:

- Continue to measure the Scope 1, 2, and 3 emissions of all its portfolio companies on a yearly basis
- Set SBTi target validation as a requirement of its ESG approach for all its new investments
- Continue to provide support, training, and resources to its portfolio companies to track, reduce and report their GHG emissions
- Continue to refrain from investing in the coal energy sector and in the oil exploration sector

From LGT CP's perspective, Astorg has implemented a practical, effective approach to managing climate change factors in its portfolio. Astorg's focus on both risks and opportunities, based on science-based facts, makes it all the more relevant for portfolio company performance.

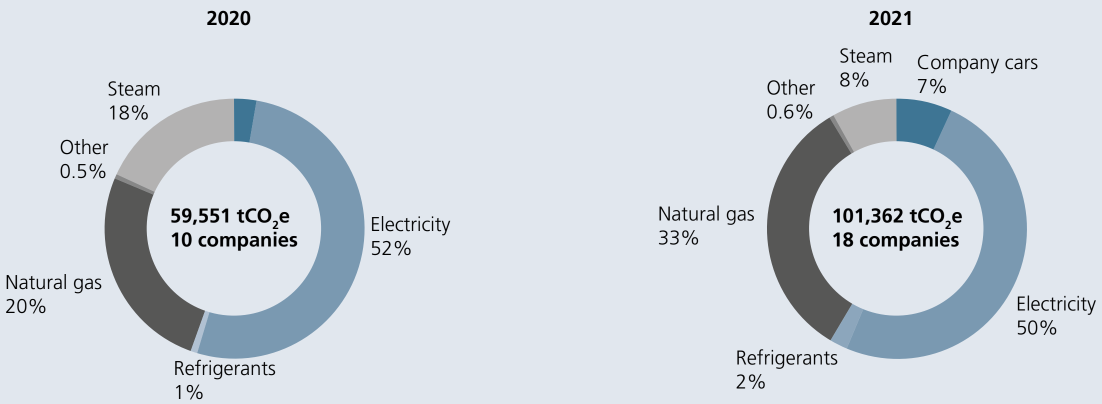
Physical risks

Risks resulting from climate change can be event-driven (acute) or longer-term shifts (chronic) in climate patterns. They can directly damage assets and exhibit indirect impacts from supply chain disruption.

Transition risks

Risks resulting from the transition to a low-carbon economy, such as extensive policy, legal, technology, and market changes required to address climate change mitigation and adaptation.[3]

Figure 5: Breakdown of Astorg's portfolio Scope 1 and 2 GHG emissions per source



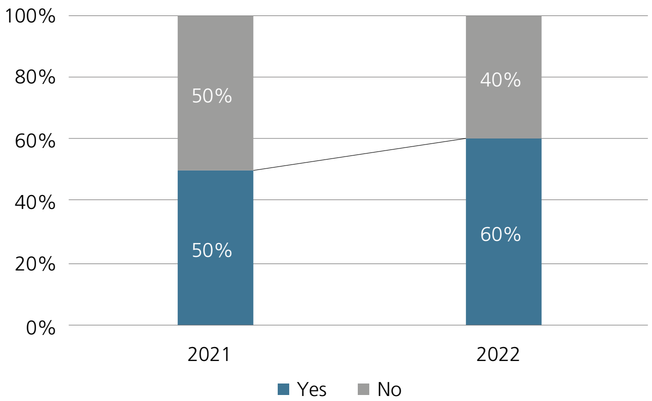
Source: Astorg

[3] Definitions adapted from the recommendations of the TCFD, 2017.

How managers approach D&I

Similar to climate change, managers have increased their focus on D&I over the last year, with the proportion of managers with a D&I policy in place growing from 50% to 60% over the last 12 months. D&I policies vary widely, with some focusing exclusively on the manager's own firm, while others also include provisions related to investment decision-making.

Figure 6: Proportion of managers that have a D&I policy in place



Source: LGT Capital Partners

In integrating D&I into investment decision-making, however, we observe only a small uptick of three percentage points in the share of managers that consider D&I when selecting investments. Similar to last year, we observe little variation in practices between regions. The US is slightly ahead of Europe and Asia, with 53% of managers factoring in D&I, versus 51% and 47% in Europe and Asia, respectively.

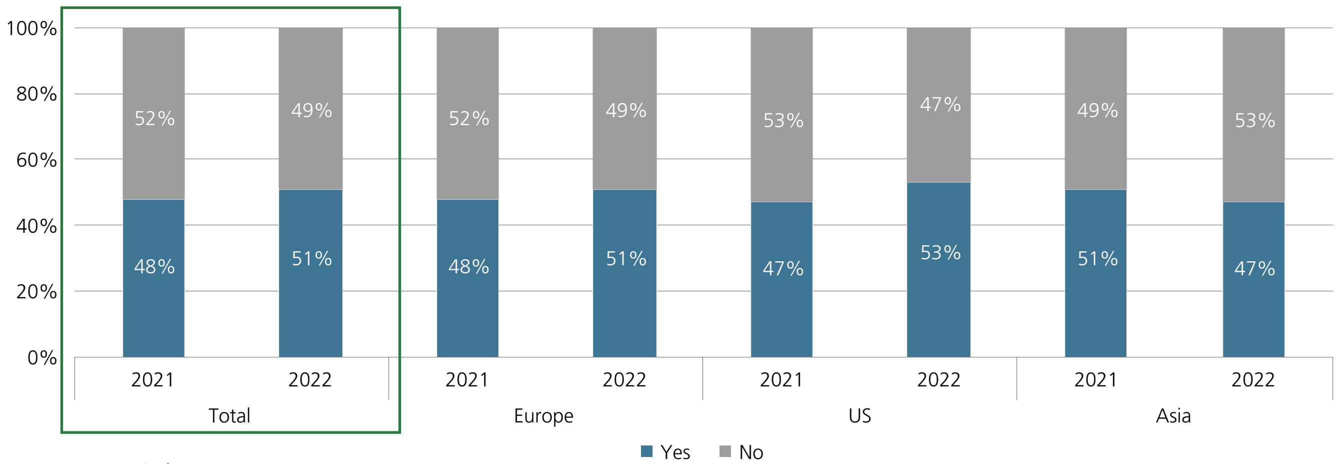
The data from Asia shows a small decrease of four percentage points in the proportion of managers considering D&I in investments, but this is largely the result of sampling issues rather than a broader regional trend. Three new managers entered the Asian cohort of 47 managers, none of whom integrate D&I factors in investment decision-making.

While the pace of change in this particular area of ESG focus is not especially fast, we do see instructive examples of how managers are responding to the D&I challenge. One US middle market buyout manager, for example, has developed a diversity scorecard for portfolio companies that tracks seven indicators: anti-discrimination policy, anti-harassment policy, whistleblower hotline, employee engagement survey, board-level diversity goals, management-level diversity goals and company-wide diversity goals.

In 2022, the manager further expanded the set of indicators from 7 to 15, which form part of the board-level D&I reporting. In addition, the manager developed a board training toolkit for D&I, and trained investment staff on the toolkit as part of their governance training. The manager has also set a goal to achieve a minimum of one-third of outside directors at each portfolio company classified as diverse within the first year of ownership.

One UK buyout manager shows their commitment to D&I by the work they do with their portfolio companies, which are concentrated in the people-centric service sectors. They collaborate with HR teams to ensure that recruiters provide a

Figure 7: Proportion of managers that consider D&I in their investment decisions



Source: LGT Capital Partners

diverse pool of candidates, which includes tracking metrics to show how candidate pools are evolving over time. Portfolio companies have also introduced "blind" recruitment measures to facilitate more balanced outcomes at the end of recruitment processes. Beyond recruitment efforts, portfolio companies have been working on various D&I initiatives for staff, such as training for middle management on effective appraisal reviews, unconscious bias training, and campaigns to help support and develop junior members of staff from diverse backgrounds.

Strong ESG practices dominate

In our nine years of assessing our global group of buyout managers on ESG, we have observed steady progress in improving ESG practices. In the early years, especially 2014–2016, only a minority of managers had robust processes in place (as indicated by ratings of 1 or 2) for managing these issues, but now a significant majority do. As of 2022, 70% of managers have achieved ESG ratings of 1 or 2.

The breakdown in ESG ratings is largely unchanged from last year. In total, 26 managers improved their ratings over the last 12 months, on the back of material enhancements in their ESG approach. At the same time, 22 new managers with slightly lower average ESG ratings entered the portfolio.

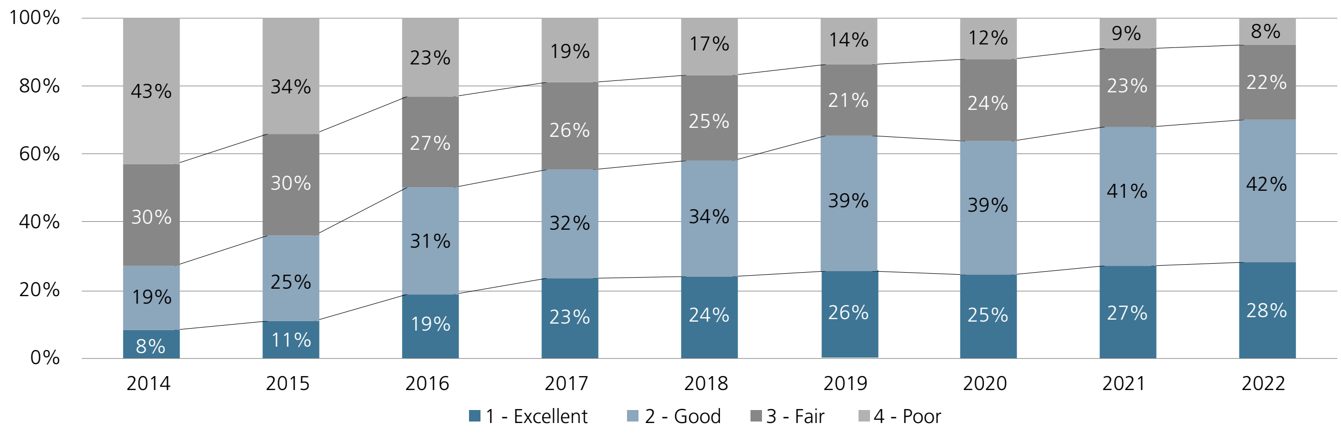
Managers continue to enhance their approaches to ESG

In one example, a US middle market buyout manager transitioned from a largely ad hoc ESG approach, focused on identifying only the most pronounced ESG risks, to a more holistic one applied across the portfolio. Their efforts resulted in a re-rating from 3 to 2. The manager's key improvement during the year was the roll out of their first ESG baseline survey to all their private equity portfolio companies. The survey provides a starting point for capturing ESG metrics across the portfolio, and it will enable year-over-year tracking of company progress. As part of their follow-up with company management teams, the manager hosted a CEO webinar to discuss results and share best practices. This is just the beginning of a wider effort aimed at elevating ESG across the manager's platform, which we at LGT CP look forward to monitoring as processes develop.

In another case, a UK middle market buyout manager earned the top rating of 1 on the back of their efforts over the year to enhance ESG work post-investment. In the new approach, the manager identifies an "ESG Champion" within the portfolio company's senior team, who oversees relevant objectives and measures of progress. To assist the ESG champions and each company on its ESG journey, the manager developed and introduced an ESG toolkit to review policies, set specific objectives and monitor KPIs.

With this framework in place, every portfolio company undergoes an ESG journey, from the point of investment until the exit of the company. As part of this journey, the manager encourages the company to put in place ESG policies and select relevant KPIs. The manager supports the company in the process and evaluates their performance on an annual basis and then reports on it in detail.

Figure 8: ESG ratings globally

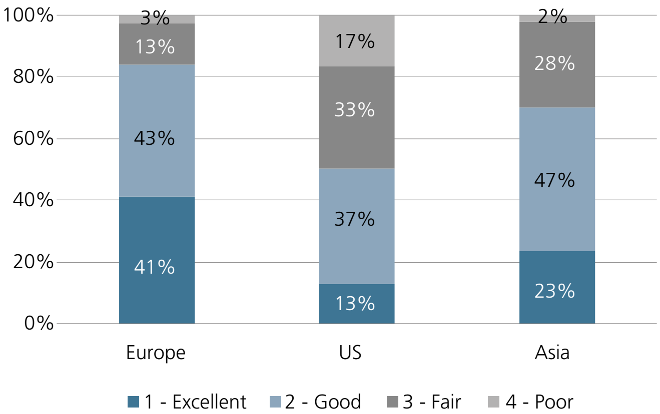


Source: LGT Capital Partners

Regional variation in ESG practices remains

We still see significant regional variation in ESG practices, with Europe in the lead, followed by Asia and the US. While 84% of European managers have achieved ESG ratings of 1 or 2, 70% of Asian managers have, with the US trailing at 50%. The most noticeable difference between the three regions is the near absence of managers rated 4 in Europe (3%) and Asia (2%), while 17% of US managers still largely ignore ESG considerations in their investment practices. For the most part, these are legacy managers that LGT CP would not re-up with, so their position in the portfolio will decrease over time. Ultimately, it reflects the fact that the US managers in our portfolios have historically lagged behind their peers in the other regions, even as they have been improving over the years.

Figure 9: ESG ratings by region



Source: LGT Capital Partners

Co-investment KPIs

We have expanded our set of co-investment KPIs this year, which cover 55 companies from our co-investment portfolio. Co-investment KPIs increased from 10 to 17, as we added 3 new environmental indicators related to climate change, as well as new indicators for social and governance factors. The new metrics help to provide a fuller picture of what our portfolio companies are doing on ESG, adding greater specificity on topics that are of growing interest to many investors.

Among the new environmental metrics, "Monitoring carbon emissions" stands out because it provides crucial data for managing climate change risk. We observe that 42% of the co-investment companies that responded to our survey currently track this indicator, which is in line with the 40% of managers who do the same across their portfolios, as noted in the discussion above on manager ESG practices. Far fewer companies, 16%, have carbon targets aligned with the Paris Agreement, a practice that has been slower to take root in private equity.

Another important new governance indicator is "Women on boards of directors," which broadens our understanding of D&I practices at portfolio companies. We find that, on average, 9% of board seats in our sample of portfolio companies are taken up by women, which is low by any standard of measure and shows how much work there is to do on D&I in the private equity industry.

Figure 10: ESG KPIs

ESG KPIs 2021	ESG metric	Portfolio score
General	Implemented an ESG policy	44%
	Provide ESG training to employees	62%
	No ESG-related litigation	93%
Environment	Implemented an environmental policy	47%
	Monitors energy consumption	45%
	Monitors carbon emissions	42%
	Paris-aligned carbon reduction target in place	16%
Social	Implemented diversity initiatives	67%
	Conduct annual employee survey	65%
	Women on boards of directors	9%
	Women in executive management	22%
Governance	Adhere to a code of conduct or ethics	91%
	Whistleblowing policy in place	78%
	Anti-money laundering, anti-bribery, anti-corruption in place	84%
	Established a remuneration committee	58%
	Established an independent audit committee	55%
	Independent board members	29%

Source: LGT Capital Partners

ESG Data Convergence Project

The new co-investment KPIs described above are in part a result of LGT CP's participation in the ESG Data Convergence Project, which our firm joined in 2021. As described earlier in the report, the initiative aims to create a critical mass of meaningful, performance-based ESG data from private companies by converging on a standardized set of ESG metrics. The standard allows for private equity managers and portfolio companies to benchmark their current position and generate progress toward ESG improvements, while enabling greater transparency and more comparable portfolio information for investors and investment managers. Initiated in 2021, the project already counts more than 120 participating private equity managers and investors.

The initial data collection cycle covers metrics along the following six categories: GHG emissions, renewable energy consumption, diversity of board members, work-related injuries, net new hires, and employee engagement. We aligned our own ESG KPI survey respectively and started engaging with our managers about the project.

ESG due diligence for co-investments

During 2021, LGT CP further refined its ESG due diligence of co-investments. The new methodology considers the company's own operations and supply chain as well as the environmental and social effects of its products and services. An ESG controversy check based on real-time data complements this analysis and helps us identify any operational, product or service-related risks ahead of the investment decision.

Below is an example of a company assessment that was done in 2021. The portfolio company is a US-based provider of portable sanitation and related site services. During the ESG review, we determined that the company manages most material topics – such as water, waste, and energy – quite well. However, the service provider operates its own fleet of vehicles, which represents a material climate-related transition risk. For example, the introduction of a meaningful carbon tax would have a detrimental impact on the company financially. In addition, extreme weather events could damage its service units and interrupt service delivery (physical risk).

We weighed these issues against our assessment of the lead investor's overall ESG practices, which demonstrate a strong commitment to effectively managing ESG risks and opportunities. Further checks showed that the company has not been involved in any ESG controversies and has a relatively low carbon footprint. Overall, this resulted in an ESG score of 2, which indicates a relatively low level of ESG risk on a scale of 1 to 4 (with 1 = excellent, 2 = good, 3 = fair, 4 = poor). Based on these findings, we were able to recommend the company for investment from an ESG perspective.

Figure 11: Example of co-investment ESG assessment

Element	Assessment	Weight	Score
Company screening	Adequate management of water, waste and energy. Certain exposure to climate risks exists. No indication of systemic issues with social and governance topics.	50%	2
Manager rating	Firm commitment and solid ESG policy. ESG matters are well embedded in investment processes and ownership phase. Comprehensive ESG reporting in place.	25%	2
Controversy check	No controversies detected.	15%	1
Carbon footprint	Comparably low carbon emissions (based on industry average).	10%	1
		Overall co-investment rating	**2**

Source: LGT Capital Partners

SFDR implementation in the private equity industry

Many private equity investors and ESG practitioners have observed a growth in regulations governing sustainable investment. In particular, the EU Sustainable Finance Action Plan containing the SFDR and the Taxonomy introduced new standards such as Principle Adverse Impact indicators (PAI) and "Do No Significant Harm" (DNSH), which are clear examples of regulators prescribing how portfolio managers should provide ESG transparency on their portfolios.

Other jurisdictions are working toward similar regulatory frameworks, or at least have similar plans. In the US, for example, the Securities and Exchange Commission (SEC) has taken regulatory action on the back of its greenwashing probe and expanded mandate to investigate ESG and sustainability claims. In the UK, the Financial Conduct Authority (FCA) is working on a Sustainability Disclosure Regime (SDR), largely mirroring the EU disclosure and transparency rules, building on the recommendations by the TCFD. Late in 2021, the UK also announced the development of a UK green taxonomy. Similar to the EU Taxonomy, this will set out the criteria that specific economic activities must meet in order to be considered environmentally sustainable in alignment with that taxonomy.

For SFDR specifically, we are still in the early days of the regulation and some parts of the new regime are still unclear, requiring further dialogue with regulators. We are closely monitoring regulatory developments and tracking manager efforts to respond to the growing requirements of SFDR. As part of our active engagement efforts, we recently asked our managers from all around the globe (Europe, US and Asia) about how they are engaging on the topic. We found that 43% of private equity managers have implemented SFDR, but the majority of their latest funds (30% of the entire sample) are classified as "mainstream" (SFDR Article 6) or are not classified. Another 10% of funds are classified as SFDR Article 8 for "promoting E and S characteristics," while only 3% of funds are classified as SFDR Article 9 for "making predominantly sustainable investments." When asked about future plans and new fund launches, our manager responses indicate the number of SFDR Article 8 and SFDR Article 9 funds is expected to double in their next generation of funds.

Figure 12: Have you implemented the EU Sustainable Finance Disclosure Regulation (SFDR)? If yes, what is the classification of your latest fund?

Source: LGT Capital Partners

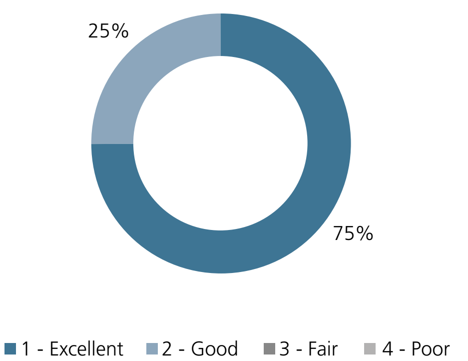
Sustainable agriculture, SAS, Spain, private equity portfolio company

Private infrastructure

ESG considerations are an important part of LGT CP's infrastructure investing, and they are important for infrastructure investors because these assets are often subject to public scrutiny and frequently operate in highly regulated sectors, with the government as a key counterparty. Furthermore, since infrastructure assets tend to have long operating lives, investors need to consider a broad spectrum of ESG considerations. These include demographic and economic developments, policy and regulatory trends, as well as impacts related to climate change.

The infrastructure managers with whom LGT CP has partnered generally have high ESG ratings, as we have sought to avoid or limit exposure to infrastructure sectors and assets with significant ESG risks. Among our infrastructure relationships, 75% have earned the top rating of 1 and the remaining 25% are rated 2. None of our managers in this area are rated 3 or 4.

Figure 13: ESG ratings of infrastructure managers



Source: LGT Capital Partners

Increasingly, our top-rated infrastructure managers are not only measuring the ESG improvements made to their assets, they are also developing methodologies to measure intrinsic public benefit created by the investments. These methodologies are based on the international-standard Impact Radar Tool developed by the United Nations Environment Programme Finance Initiative and adapted to the managers' universe. Impact categories are based on the Sustainable Development Goals (SDGs), and they range from helping populations access water, healthcare, and quality education to improving biodiversity, air quality and resource efficiency. These are measured on a sector, country and asset level.

So far, 44% of our managers have committed to achieving net zero emissions by 2050 or sooner, in line with the Paris Agreement. The first step towards achieving this ambition is setting up processes for collecting Scope 1 and 2 greenhouse gas emissions to facilitate lowering emissions across existing portfolios. We look forward to supporting them and monitoring their progress as they they develop their approaches to achieving net zero emissions.

Case study: Infrastructure investment drives energy savings under long-term Energy-as-a-Service (EaaS) contracts

In December 2021, LGT CP invested alongside Dutch infrastructure manager DIF in Bernhard Energy Solutions (Bernhard), a US-based infrastructure provider of energy solutions. ESG considerations were a key part of this transaction, as Bernhard addresses the demand side of emission reductions through energy management, which compliments other supply-side solutions that feature in LGT CP's existing renewable energy investments.

Bernhard delivers energy and cost savings under long-term Energy-as-a-Service (EaaS) contracts, which set out energy savings and performance guarantees for installed energy infrastructure. Solutions typically involve upgrades of existing facilities, such as heating and cooling, lighting, building automation, water management and a range of other critical systems. EaaS provides the benefits of reducing the upfront cost of comprehensive energy infrastructure upgrades, enabling organizations to make progress towards their sustainability objectives while retaining financial flexibility. In an environment where both public and private sector organizations are prioritizing sustainability, including more efficient buildings, Bernhard has established itself early in the market and delivered average energy savings of approximately 30% to its customers across 11 US states. Since 2006, Bernhard has saved approximately 3.2 million metric tons of CO_2 for its customers, which is equivalent to the emissions of around 1.5 million cars over one year.[4]

Bernhard's key customers include healthcare and higher education facilities that aspire to a high level of ESG performance, but often lack the capital for ambitious energy efficiency upgrades. ESG considerations are a key driver behind the forecasted 30% annual growth of Bernhard's core markets, EaaS in healthcare and higher education, over the next ten years.

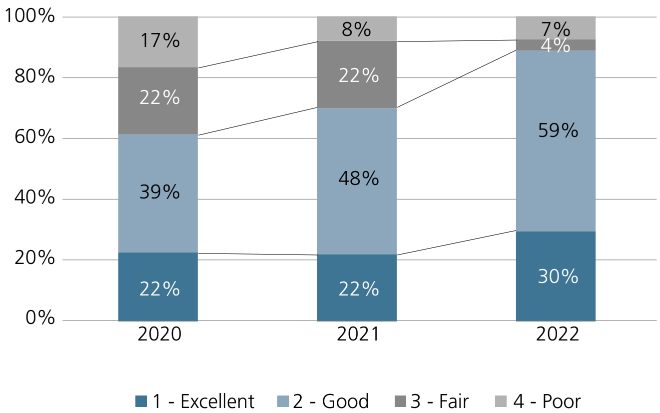
We continue to proactively track the ESG performance of the asset. We have also been monitoring the approach of DIF to ESG, which holds a rating of 1 in our framework because of its institutionalized approach to managing ESG risks and opportunities and reporting on them in a comprehensive way. DIF has put in place an ESG framework for Bernhard to further embed ESG initiatives into Bernhard's culture, business plan, and strategy.

[4] Based on the average emissions of a new car in Europe, which equals the CO_2 equivalent of 2.16 metric tons per year for a driving distance of 20,000 kilometres per year and 107.8 g/km CO_2 emissions (2020 data).

Private real estate

We have been rating our managers on their ESG practices for several years and have seen a marked improvement in how they approach ESG. One key indicator of this improvement has been the growth in the proportion of managers rated 1 or 2, indicating institutionalized ESG practices, over the last two assessment cycles. In 2020, these managers accounted for 61% of the total, but now they make up 89% of the portfolio. This has been partly driven by an influx of new managers over the last two years, who mostly have solid approaches to ESG. However, we have also seen meaningful enhancements in ESG practices of existing managers, as four managers improved their ratings from 3 to 2 over the last 12 months. In one example, a UK-based manager proactively reached out to us to engage in a dialogue on best practices across the industry. The dialogue resulted in them enacting a more stringent approach to ESG across their portfolio and operating partners, earning a higher ESG rating from us.

Figure 14: ESG ratings of real estate managers



Source: LGT Capital Partners

Only two managers in our real estate portfolios still have the lowest rating of 4, indicating little to no effort on ESG. In our engagement with them, they have made it clear that they have no plans to enhance their approach, so we would not re-up with them as long as this remains the case.

The improvement in ratings shows that ESG has moved up the agenda for both tenants and owners of private real estate in recent years. This is driven in large part by an evolving regulatory landscape, but also by market participants that are prioritizing ESG across the real estate value chain. On the regulatory front, much of the impetus has come from the EU Green Deal, including EU sustainability regulations, such as the SFDR. At the same time, as capital has continued to flow into the real estate asset class in a search for yield, investors are increasingly focused on managers and operators that have a strong approach to ESG. Additionally, with pressure from tenants seeking ESG-friendly work or living spaces, as well as broader regulatory measures, managers and operators are adopting more stringent ESG criteria in their day-to-day operations.

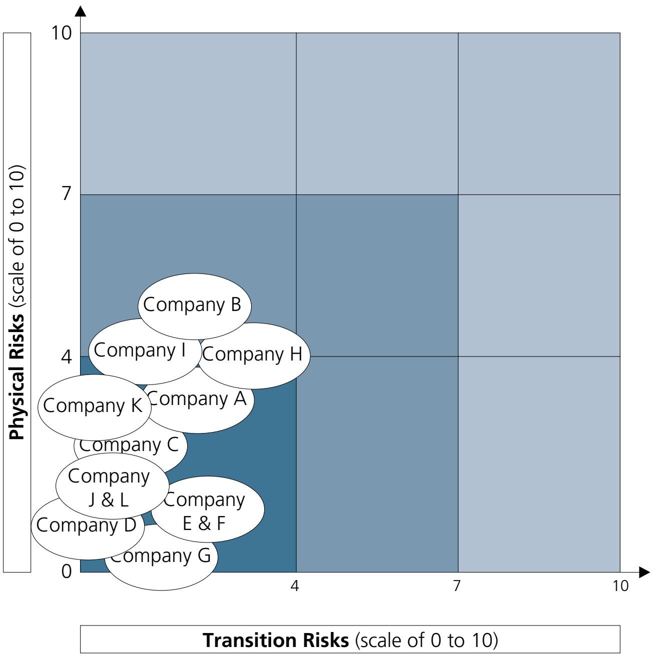
Private debt

Climate action within private debt

Last year, we introduced our new proprietary framework for assessing the climate resilience of portfolio companies, which has enhanced the way we manage climate change risk in our private debt portfolio. The approach is designed to address the rising expectations of investors and regulators for combating climate change and mitigating climate-related business risks. It emphasizes climate risk analysis for asset selection and systematic CO_2 footprint monitoring post-investment, in line with the TCFD recommendations. The analysis allows us to systematically consider climate change induced risks, while assessing the materiality of those risks for any given business.

Figure 15 shows all portfolio companies that have been rated within the framework, and it indicates that the portfolio performs well in relation to physical and transition climate risks. From a top-down perspective, this is driven by the respective sector distribution of the portfolio, being well diversified and exposed to stable industries such as IT services, technology, insurance and healthcare services. The portfolio companies have predominantly asset-light business models, which in combination with their industry focus, are less exposed to climate-related risks.

Figure 15: Physical and transition risks of the portfolio so far



Source: LGT Capital Partners

According to the model, scores of 4 and below are considered to be low risk (dark blue box), while scores in the 4–7 range are deemed a medium risk, which would entail further scrutiny from the Investment Committee (IC). Companies rated 7–10 would invite still more scrutiny, and the IC has committed to limiting such companies to less than 20% of portfolio assets.

On the back of our analysis, we rate the materiality of such risks, which allows for informed asset selection based on climate change considerations and monitoring of the portfolio's composition according to the risks identified. This rating process forms an integral part of the investment due diligence process, completed for each prospective portfolio company.

Examples of climate resilience considerations

Company F in Figure 15 is an example of a business that we would traditionally expect to be resilient to climate risks, as a provider of integrated connectivity and technology solutions. The business scores very well on both physical and transition risk assessments in terms of direct risks to the business, but the deal team identified indirect climate risks associated with the supply chain, which were discussed with management and analyzed during the investment process.

Within the risk assessment, each issue is assigned a materiality score on a scale of 0 to 2, where 0 indicates no anticipated risk, 1 signals a possible risk with moderate materiality, and 2 flags high risk with high materiality. The scores are then aggregated into overall physical and transition risk assessments, as shown in Figures 16 and 17.

Figure 16: Assessing physical risks

Item	Potential impact example	Materiality score
1. Operations	Facility integrity and production capacity	0
2. Supply chain	Raw materials, transportation, access to energy	1
3. Workforce	Health, safety and absenteeism	0
4. End-user environment	End-user behavior changes	0
5. GHG emissions	Direct emissions	0
Total		0

Source: LGT Capital Partners

The company specializes in the provision of digital connectivity in complex environments, such as hospitals and university campuses. It designs, deploys and manages network architecture and connectivity solutions–spanning 5G, "internet of things" (IoT) and WiFi–to establish smart environments in long-term partnerships with customers. The direct physical risks outlined in Figure 16 are immaterial due to the business model, but supply chain risk is deemed material, particularly with respect to raw material price volatility, availability and logistical challenges (including rare earth oxides and metals sourced in China).

Company F is well positioned with respect to transition risks, since it provides products and services that help organizations to enhance their resilience to climate change. Specifically, the company helps customers achieve energy- and sustainability-related efficiencies, such as smart lighting and better waste management practices. However, the management team recognizes the risks associated with their supply chain, so they proactively engage with suppliers to become more sustainable. They also continuously enhance their vetting and reporting processes. As a result, the deal team assigned a materiality score of 1 to the supply chain, since it is an inherent risk within the business, but one that is well managed by the management team.

The strong score on climate resilience, together with other factors, enabled the IC to get comfortable with Company F and approve it for investment.

Figure 17: Assessing transition risks

Item	Potential impact example	Materiality score
1. Technology	Substitution to new tech offerings	0
2. End-market	Shifting end-user preferences	0
3. Supply chain	End-user scrutiny of supply chain	1
4. Regulatory	GHG emissions pricing and compliance	0
5. Reputation	Negative stakeholder perception	0
Total		1

Source: LGT Capital Partners

Portfolio company KPIs

We continue to track our usual range of ESG KPIs on the companies in our private debt portfolio. These provide us with insights on how companies are responding to the full set of 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 Figure 18, we aggregate a selection of KPIs across our portfolio of 44 companies to provide a snapshot of how our private debt portfolio overall is performing on ESG.[5]

Figure 18: ESG KPIs

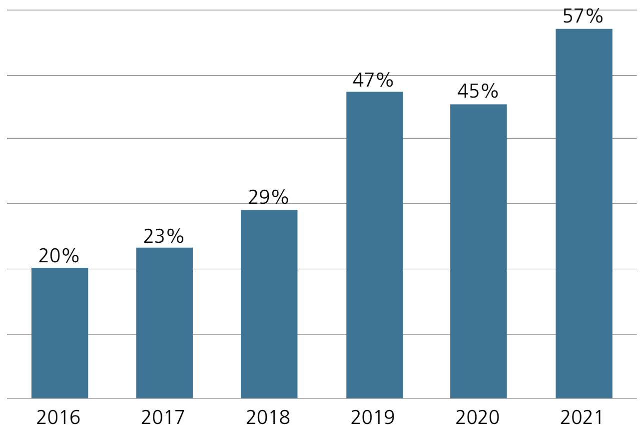
ESG KPIs 2021	ESG metric	Portfolio score
General	Implemented an ESG policy	59%
	Track ESG initiatives with KPIs and reports	48%
	No ESG-related litigation	95%
Environment	Implemented an environmental policy	48%
	Assess carbon footprint	57%
	Track water or energy consumption	66%
	Track waste volumes, cost and % recycled	52%
Social	Net job creation	75%
	Provide training opportunities	89%
	Company-wide profit sharing	52%
	Proportion of women in executive management committees	25%
Governance	One or more independent board member(s)	55%
	Average number of board meetings per year	8
	Adhere to a corporate code of ethics	73%
	Established independent board committees (management, audit, remuneration, etc.)	59%

Source: LGT Capital Partners

[5] Based on our survey of LGT CP private debt portfolio companies as of 31 December 2021.

For one key indicator, assessing carbon emissions, we observe a positive long-term trend (Figure 19), as the proportion of companies disclosing this information has grown significantly since 2016. Currently, 57% of portfolio companies report on CO_2 emissions, an increase of 12 percentage points over last year. It shows that more than half of the companies in the portfolio recognize the importance of climate change within business operations.

Figure 19: Proportion of companies assessing their carbon emissions



Source: LGT Capital Partners

Carbon footprint compared to the benchmark

With carbon emissions at the forefront of many investors' minds, we have developed an approach for assessing the carbon footprint of our private debt portfolio based on a mix of industry proxies and actual company Scope 1 and 2 carbon emissions.[7] Based on the current reporting practices of our portfolio companies, reported emissions account for 67% of the values shown in Figure 20 (with 43% of companies reporting this data), with the balance estimated from industry proxies. The LGT CP portfolio outperformed the MSCI Europe in terms of carbon intensity, measured as emissions per million EUR revenues/invested. The carbon intensity of the portfolio's total company emissions was 41.1 tCO_2e per million EUR revenues, or 70% below the MSCI Europe benchmark.

Figure 20: LGT CP portfolio vs. MSCI Europe

Portfolio CO_2 intensity	41.1 tCO_2e emissions per million EUR revenues
Portfolio CO_2 intensity MSCI Europe benchmark	136.3 tCO_2e emissions per million EUR revenues

Source: LGT Capital Partners

LGT Private Debt awarded the LuxFLAG ESG label

In October 2021, our latest private debt offering was awarded the LuxFLAG ESG label.[6] LuxFLAG is an independent, international non-profit association, that awards labels to investment vehicles on matters related to sustainability, including ESG, microfinance, environment, climate finance, and green bonds. Founded in 2006, LuxFLAG is backed by several private and public founding partners, including the European Investment Bank, in an effort to promote sustainable investing in the financial industry. We wanted our systematic ESG approach to be validated by an established and respected third-party with exposure to private markets, in order to reassure our investors of our commitment to ESG.

The ESG label process involved LuxFLAG developing a detailed understanding of our ESG strategy and process. The entire invested portfolio was screened against the eligibility criteria, including the application of sector exclusions, and a sample of assets from our private debt offering were verified for the correct application of the described ESG processes.

[6] The LuxFLAG ESG label is valid for the period ending 30 September 2022. Investors shall not rely on the LuxFLAG Label with regard to investor protection issues and LuxFLAG cannot incur any liability related to financial performance or default of our latest Private Debt offering.
[7] Based on a portfolio size of 44 companies. "LGT PD owned" based on share of capital invested by LGT Private Debt in relation to total enterprise value as of closing. "Total company emissions" based on a mix of top-down (industry proxies) and bottom-up (company level assessments) CO_2 footprint assessments. "Share of bottom-up CO_2 emissions assessments" for which CO_2 footprint results from bottom-up (company level assessment) approach only.

Insurance-linked strategies (ILS)

ESG ratings of ILS counterparties reflect focus on quality

Our panel of reinsurance counterparties consists of more than 100 individual firms, ranging from large, multi-national companies to small, local insurance carriers. A company's ESG profile is an integral part of our counterparty due diligence process, as we prefer long-term relationships with high-quality sustainable counterparties.

We assess our counterparties' ESG performance on an annual basis with the help of the ESG Cockpit, with the same holistic evaluation approach that our equity and fixed income colleagues use for identifying high-performing companies along the various ESG dimensions (operations, controversies and impact of products and services on the SDGs).

Over the last five years, the number of counterparties captured in the ESG Cockpit increased, and the ratings show that we have consistently transacted with a majority of counterparties whose ESG profiles are deemed either excellent or good. In 2022, we restructured our ILS portfolio in order to reduce risk. We did so by making the portfolio more robust against the impact of small to mid-sized insurance events and "secondary" perils, such as wildfires and floods. This has resulted in a slight shift in the ESG rating distribution within our portfolio, but the continued high allocation to counterparties with better-than-average ESG ratings reflects our commitment to focusing on companies that outperform their peers in terms of ESG standards.

How LGT's ILS portfolio looks under SFDR

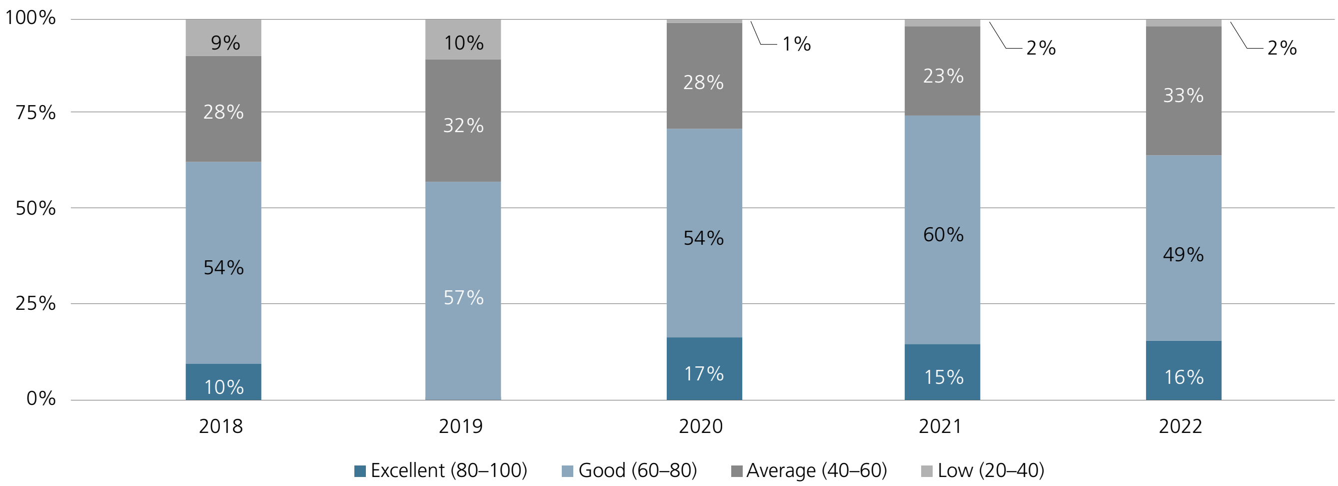
Last year, we conducted an analysis of where our ILS portfolios stand when applying the SFDR guidelines. We also looked at the extent to which our investments meet the key criteria of the EU's Sustainable Finance Action Plan, with particular focus on the EU Taxonomy. The current EU Taxonomy is a classification system for economic activities that significantly contribute to a specified set of environmental objectives, which we can expect to expand in 2023. Our analysis of Taxonomy alignment shows that a substantial proportion of one representative ILS portfolio (28%) is fully aligned with the current objectives, and can consequently be considered Taxonomy aligned. Most of the remaining portion of the portfolio meets the criteria of either "Sustainable Investments" or "Environmentally or Socially Aligned."

Our ILS funds are currently not classified under SFDR Article 8 and this analysis was conducted for comparative purposes only.[8]

Our Taxonomy-aligned investments meet the following criteria:

1. **Substantial contribution:** the (re-)insurance activity should make a substantial contribution to the overall goal of climate change mitigation/adaptation (positive screening).
   LGT ILS portfolios: we have a strong focus on property natural catastrophe reinsurance, where the majority of instruments provide cover against climate-related perils, such as tropical cyclones or winter storms. The reinsurance capacity provided by such instruments supports the availability of insurance protection for people living in areas that are at a higher risk due to climate change, and it creates financial incentives to invest in preventative measures.

Figure 21: ESG ratings of LGT ILS counterparties



Source: LGT ILS Partners; weighting of ratings are based on limit written

[8] We anticipate reclassifications of funds to SFDR Article 8 later in the year based on these findings.

2. **Do no significant harm (DNSH)/principal adverse impact:** the (re-)insurance activity itself must not harm the overall goal of climate change mitigation/adaptation (negative screening).
   LGT ILS portfolios: we have carefully screened our outstanding reinsurance contracts to establish whether they cover (and therefore indirectly support) the extraction, storage, transport or manufacture of fossil fuels, including vehicles or property dedicated to such purposes. For example, a cat bond or CRI contract that has significant exposure to offshore oil rigs or oil pipelines is not a sustainable investment, even if the position is providing cover against hurricane risk, which is a climate-related peril. This analysis has led to our decision to not renew a small number of contracts at the January 2022 renewal round, as the underlying exposure of these contracts would have resulted in a violation of the DNSH test.

3. **Minimum safeguards:** companies that receive (re-) insurance cover must adhere to minimum safeguards standards with regards to human rights, labor rights, anti-bribery, etc.
   LGT ILS portfolios: the ESG Cockpit, LGT CP's proprietary ESG assessment tool, plays a crucial role in evaluating ILS transactions under the SFDR because the tool includes criteria that address the Minimum Safeguard Test. The output of the ESG Cockpit has been integrated into the due diligence of our reinsurance counterparties for many years, and it now also serves to perform the Minimum Safeguards check under SFDR on the level of the individual investment position.

Apart from the Taxonomy-aligned investments, an additional 51% of the portfolio is deemed Sustainable Investments because the underlying transactions positively contribute to another environmental and/or social goal besides "Climate Action," and they pass the DNSH and minimum safeguard test. This includes a reinsurance contract with a residential insurer that has a high ESG rating. Furthermore, the transaction only covers earthquake risk, rather than a climate-related peril. Insuring homeowners against earthquake risk addresses SDG 11, "Sustainable Cities and Communities," therefore it is considered sustainable.

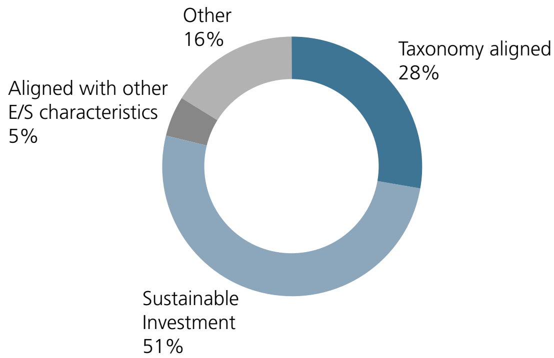
Another 5% of investments are aligned with other environmental or social characteristics. One example is a cat bond issued by the World Bank that provides cover for natural disasters in a developing country. While such a transaction supports the financing of disaster recovery efforts, it would likely not pass the DNSH test, as the risk capital provided can be used to rebuild infrastructure in connection with fossil fuels.

The remaining 16% of the portfolio includes investments that do not meet a sufficient number of criteria to be considered Taxonomy aligned, Sustainable Investments, or Environmentally or Socially Aligned.

The chart in Figure 22 shows the split of investments in one of our funds in accordance with the SFDR template for Article 8 funds.

This analysis shows that our investment approach, with its strong focus on property catastrophe reinsurance and preference for working with high-quality insurance and reinsurance companies, is well suited to SFDR Article 8 funds. As investors are increasingly looking for opportunities that both deliver attractive return and have a positive contribution to achieving climate action goals, ILS is an asset class worth looking at.

Figure 22: Instrument split of a representative ILS portfolio under SFDR



Source: LGT ILS Partners, data as of February 2022

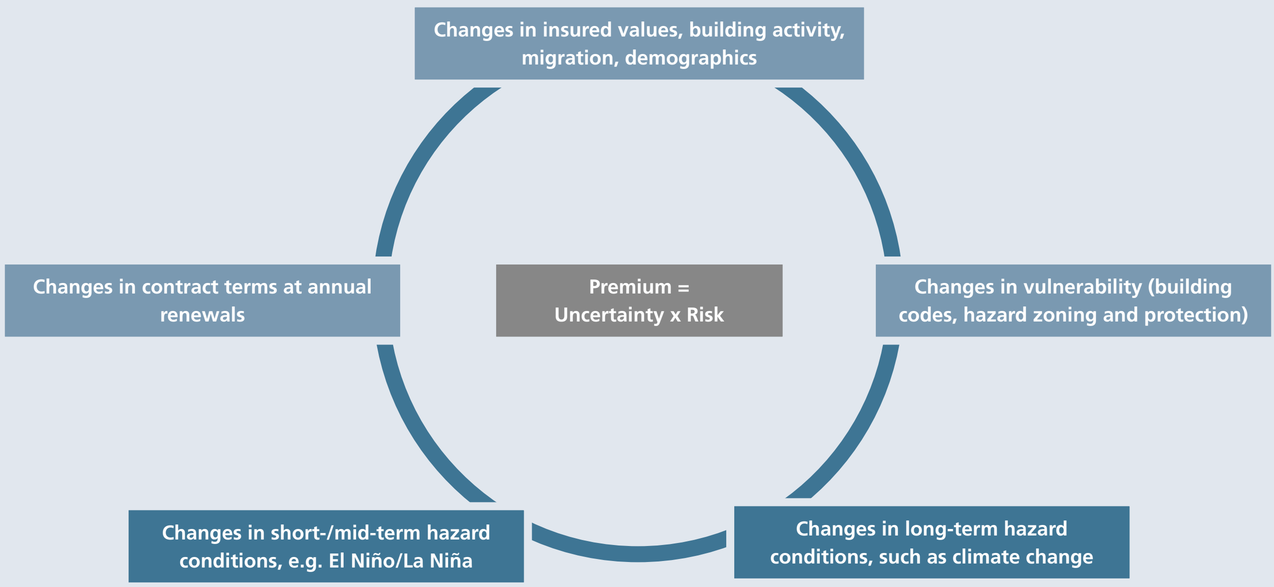
How ILS can contribute to positive climate action outcomes

ILS is an asset class that can have a positive influence on climate action initiatives. ILS instruments such as cat bonds and collateralized reinsurance investments (CRI contracts) play a vital role in enabling insurance companies to provide insurance protection to people exposed to the effects of climate change. At the same time, the supply and demand dynamics of the insurance and reinsurance industry create financial incentives for individuals and businesses to take action with regards to adapting to a changing climate.

The price for insurance cover (the "premium") is determined by a number of different tangible and intangible factors. The former include the actual value of the insured property, the location, type and year of build, or applicable building codes, while the latter encompass more open-ended factors, such as the rising risk and/or higher uncertainty of property damage due to climate change.

The pricing dynamics of the insurance market encourage policyholders to mitigate the risk of property damage from climate-related natural disasters. Policyholders typically get a better quote for their insurance cover if they can prove that they have implemented preventative measures. Examples are maintaining a safety zone around their house to prevent damages from wildfires or investing in better construction techniques or more robust materials in the case of homes that are exposed to severe windstorms.

Figure 23: Factors relevant for the premium of ILS transactions



Source: LGT ILS Partners

Hedge funds

Fund of hedge fund offering achieves EU SFDR Article 8 classification

2021 marked something of a milestone for LGT CP's hedge fund platform, as we were able to classify our flagship discretionary strategy as an Article 8 product offering under the SFDR. This is because the strategy promotes "among other characteristics, environmental and social characteristics" through a systematic ESG assessment. This includes defining and monitoring of ESG and greenhouse gas emissions targets, as well as other governance-related provisions.

As far as we are aware, our flagship discretionary hedge fund offering is one of the few fund of hedge funds currently in the market that can claim SFDR Article 8 status based on the strength of the firm's ESG processes, rather than the SFDR status of the underlying funds. Other fund of hedge funds have been classified under SFDR Article 8 based on the fact that all underlying funds are also classified this way, which significantly decreases the investable universe for the manager. By contrast, the LGT CP strategy can select underlying funds from a broad universe of Article 8 and unclassified funds because it has an ESG process in place for fund selection.

Ultimately, this capability stems from the position-level transparency provided by LGT CP's managed account platform, as well as other factors, such as an ESG assessment of the underlying managers, ESG monitoring and governance. These features enable us to place less weight on the SFDR product classifications of individual underlying managers, and more on what is actually being implemented. This enables us to expand the investable universe, thereby improving the portfolio's risk and return profile.

Combining top-down and bottom-up ESG assessment

The first pillar of ESG integration is our ESG assessment of the manager and the underlying assets in the portfolio, based on a rigorous top-down and bottom-up assessment. The manager assessment, aligned with the PRI Responsible Investment DDQ for Hedge Funds, results in a "top-down score" (TDS). The TDS is weighted to focus on a few key areas, such as managers' ESG policies and governance, ESG integration in the investment process, and ESG monitoring and reporting. These attributes are consolidated into a single score on a scale of 1 to 4 (where 1 = excellent and 4 = poor), providing a good snapshot of how the manager implements ESG.

Each TDS is complemented with a "bottom-up score" (BUS) focused on the ESG footprint of the underlying assets. We review and rate underlying assets using our ESG Cockpit, a proprietary tool that draws on publicly available ESG data to generate ESG scores for individual securities. It analyzes the ESG attributes of a company's operations, ESG controversies and the impact of the company's products on the SDGs. These metrics are combined with an assessment of the portfolio's greenhouse gas emissions, as measured by metric tons CO_2 equivalent per USD million in enterprise value (accounting for the whole capital structure, including equity and debt). In a comparable manner to the TDS, the BUS metrics are aggregated into a single ESG score on a scale of 0 to 100 (where 100 is the top possible score), giving a further indication of the overall ESG characteristics of the portfolio.

Monitoring portfolio targets and ensuring robust governance

The second pillar of ESG integration consists of systematic target setting and monitoring. The ESG information we derive from our ESG Cockpit enables us to define a target range for the portfolio and to monitor performance over time, as well as serving as the basis for the ESG score and the GHG emissions data. As an illustration, we defined an overall ESG target score of 60 for the year 2022 for our flagship discretionary hedge fund offering, which we judge to be a good score for a diversified hedge fund portfolio. In addition, we defined an initial portfolio GHG budget of 42 tCO_2e per USD million in enterprise value monitored over time.[9]

When we see breaches of our guidelines in individual underlying portfolios, we engage managers to rectify identified discrepancies. Such engagement may result in portfolio actions to bring managers back within targets or possibly even lead to the exclusion of managers from the portfolio.

[9] The GHG budget is revised every year according to the International Energy Agency (IEA) Net Zero 2050 sectoral pathways.

The third pillar of ESG integration includes best practices that derive from the regulatory requirements set out in the SFDR. For example, we work in the area of governance to ensure the independence and integrity of the monitoring process, which is fully integrated into the firm's independent Risk Management team, along with additional oversight from relevant ESG decision-making bodies within the firm.

Taken together, these three pillars ensure a robust ESG process for assessing, managing and monitoring ESG risks, which is fully in line with SFDR Article 8 requirements.

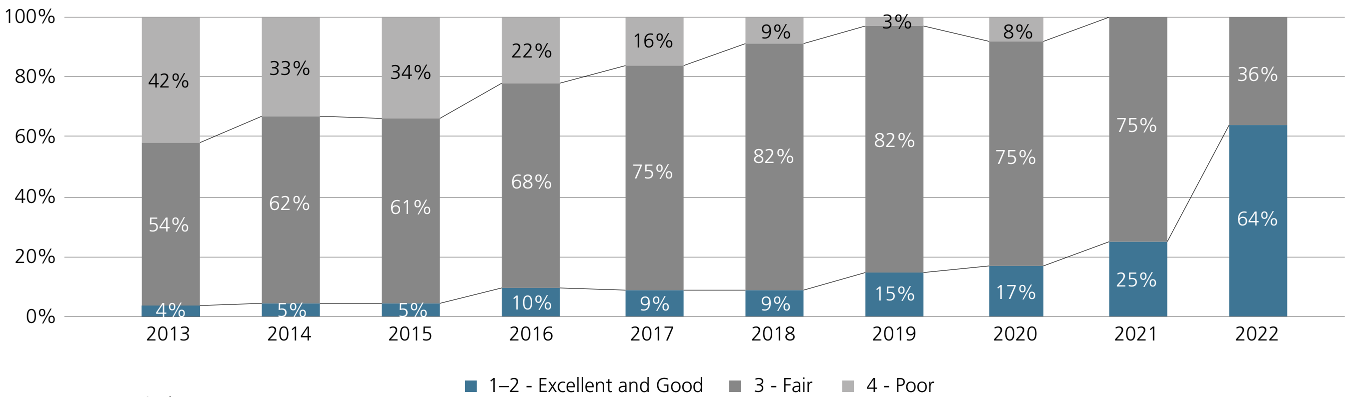
Current ratings and the long-term ESG development of our hedge fund universe

Our 2022 assessment of hedge fund managers shows a significant improvement in top-down ESG ratings. For the first time, the proportion of managers rated 1 or 2 (indicating strong ESG practices) – 64% – now significantly outweighs managers rated 3, who are in the early stages of ESG development. A total of seven managers improved their ESG rating from 3 to 2 during this assessment cycle, and two new managers achieved the top rating of 1, all on the back of material improvements to how they manage ESG risks and identify opportunities.

We see a similar positive picture when looking at the volume of assets managed for us by these firms, where 69% of hedge fund assets are managed by teams with an ESG score of 1 or 2, while 31% are managed by those rated 3.

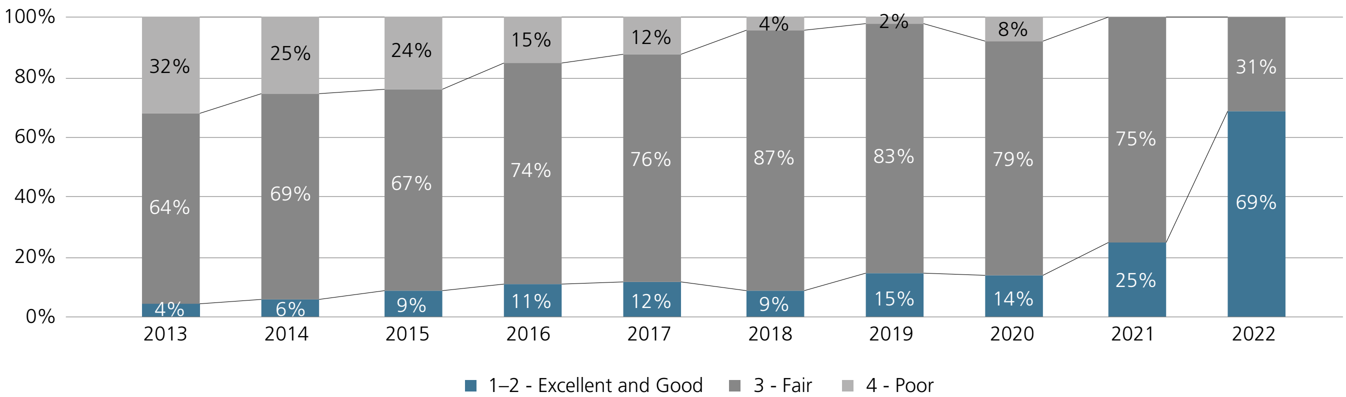
These encouraging developments have been driven by a number of different trends in our stable of hedge fund partners. First, more managers have adopted meaningful ESG polices, which clearly spell out processes for identifying and assessing ESG factors. Second, managers have demonstrated their commitment on the topic by joining relevant ESG-related organizations, such as the PRI. Finally, many managers have improved ESG governance by, among other things, clearly spelling out roles and responsibilities managing ESG. Overall, our discussions with managers over the last 12 months reveal a much deeper understanding of the topic, especially among US managers.

Figure 24: ESG ratings by number of managers



Source: LGT Capital Partners

Figure 25: ESG ratings by AuM



Source: LGT Capital Partners

Relative Value/ CTAs

Over the last year, managers investing with these strategies significantly improved their approaches to ESG, in terms of investment policies and governance, as well as within the firms overall. For example, one manager launched an internal ESG committee and several managers carried out extensive ESG training for staff. Another large manager launched an initiative to incorporate ESG considerations in all strategies. Furthermore, since these managers trade instruments that are extremely cash efficient, we can deposit excess cash from the strategies in a money market fund that invests a significant portion of its assets in sustainable investments that also ensure capital preservation. Following these improvements, the ESG ratings of our CTA/ global macro and relative value managers have also improved since last year, mirroring developments in the equity strategies. In total, 63% are rated 2, up from 16% last year, and the remaining 37% are rated 3.

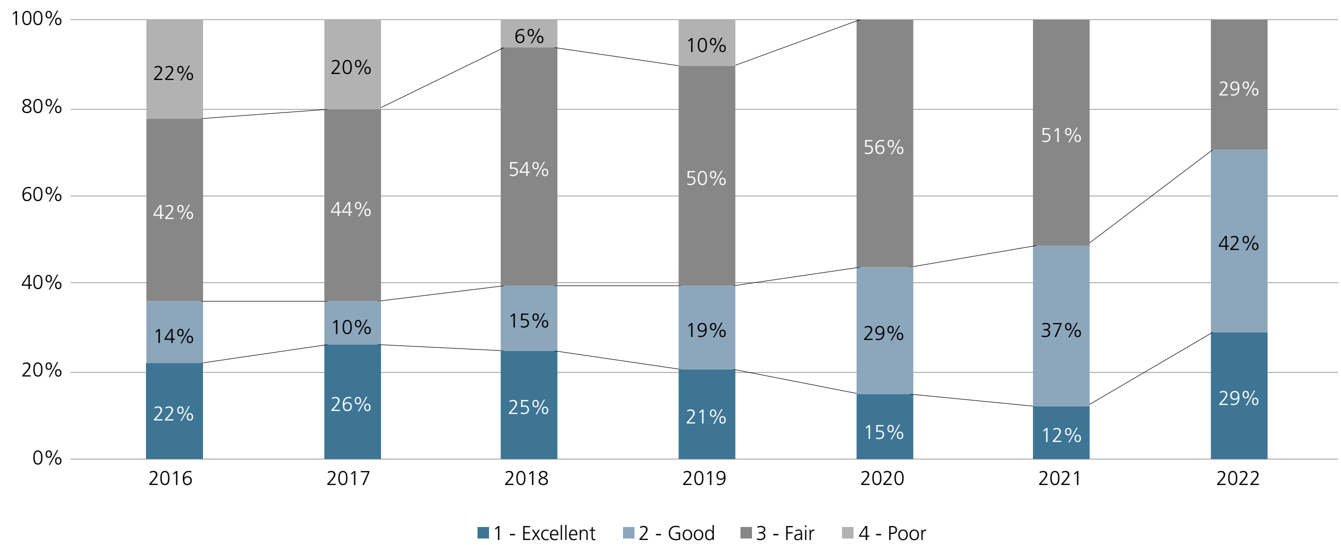
Long-only managers

In this year's assessment of long-only managers, the proportion with high ESG ratings (1 or 2) has risen significantly, driven by a mix of improvements in managers' ESG frameworks and LGT CP portfolio management actions. In our latest assessment, 71% of managers have achieved high ratings (1 or 2), up from 49% last year. We also observe an increase in the proportion of 1-rated managers, after several consecutive years of decreases. The latter resulted from our increasingly stringent ESG assessment criteria, and it is encouraging to see managers enhancing their approaches to ESG in response to rising expectations in the market.

We believe that our ESG assessment approach has been further validated by the EU Regulatory framework, since most managers that achieve our highest rating (1) also have funds that are classified as an Article 8 or even Article 9 offerings under the SFDR framework.

As an example of how these improved ratings play out in specific LGT CP portfolios, our multi-manager equity global strategy now allocates to three managers with a rating of 1, including one manager that improved their rating on the back of continuous engagement with LGT CP. Furthermore, the strategy now allocates to just two managers with the minimum investable rating of 3, following the redemption of one manager and significant ESG improvements by three managers. One of these managers is highlighted in the case study that follows.

Figure 26: ESG ratings of long-only managers



Source: LGT Capital Partners

Case Study: US equity manager develops new ESG framework for stock selection at LGT CP's urging

River Road Asset Management (RRAM), based in Louisville (KY), has managed a USD 290 million US equity portfolio for LGT CP since June 2018. As part of larger discussions last year aimed at broadening the investment mandate from US to global equities, we proposed adding ESG as a key criteria in security analysis. While the manager had always considered various ESG factors in its investment decision-making, it was done in an ad hoc, largely qualitative way. At our urging, they designed a solution to systematically bring ESG factors to the center of stock selection.

The solution entailed enhancing their Absolute Value® approach, which had been based on five critical criteria, by adding ESG as the sixth criterion. To do so, they designed an entire new framework to identify and score the full range of ESG factors. The framework assigns weightings to each of the three main components of ESG – 25% for environment, 25% for social and 50% for governance – and then drills down deeper into the individual constituents. These include a wide range of factors, such as carbon emissions, resource intensity, product safety, employee relations, board structure and accounting standards, to name just a few.

When evaluating a company, the team ranks each of the critical criteria on a scale of 1.0 (highest conviction) to 5.0 (lowest conviction). Based on this assessment, the team will evaluate the risks and opportunities inherent in the investment across each criterion to determine an overall security conviction, also ranging from 1.0 to 5.0. Along with a security's discount to assessed valuation, overall conviction ratings are a key component for determining whether a stock is purchased and how a position is sized. They also provide actionable data to use for potential improvements to the investment discipline and processes over time.

One example of this involved a US energy producer, which RRAM ultimately declined because the ESG analysis showed that the company faced significant long-term environmental risks. Specifically, the RRAM team found that the company's power-generation mix consisted of 29% coal and 63% natural gas, which together contribute to very high carbon intensity. Furthermore, while the company has ambitious targets to reduce coal-fired generation to 10% by 2030 and be net zero by 2050, its prior lack of environmental disclosure did not allow for a proper analysis of the energy producer's carbon intensity reduction to date. Accordingly, the company received a conviction rating of 5 (lowest possible) for the key environment risk subcategory "Carbon – own operations" in River Road's ESG assessment framework. The RRAM team concluded that they will continue to monitor the company, given its renewable energy investments and net zero pledge. However, they think the stock is unlikely to be eligible for the portfolio until the company can demonstrate a significant decline in carbon intensity.

Public equity

Achieving net zero by 2050

In 2021, LGT CP committed to achieving net zero CO_2 emissions in its portfolios by 2050, with the goal of limiting global warming to well below 2° C, preferably 1.5° C, compared to pre-industrial levels by the end of the century, in line with the Paris Agreement. Achieving this entails developing a budget of allowable CO_2 emissions for the portfolio, and then bringing the actual financed emissions of the portfolio in line with, or below, the budget. In deriving the budget, LGT CP uses the Net Zero Emissions by 2050 Scenarios (NZE) developed by the International Energy Agency (IEA). The NZE focuses specifically on high-emitting sectors, such as construction, transport, heavy industrials, and power production, by outlining sector specific decarbonization paths for each.

Comparing two dramatically different Paris-aligned portfolios

The strength of scenarios like the NZE comes from the fact that they take the different CO_2 intensities of necessary economic activities into account and handle those in a scientifically sound manner.

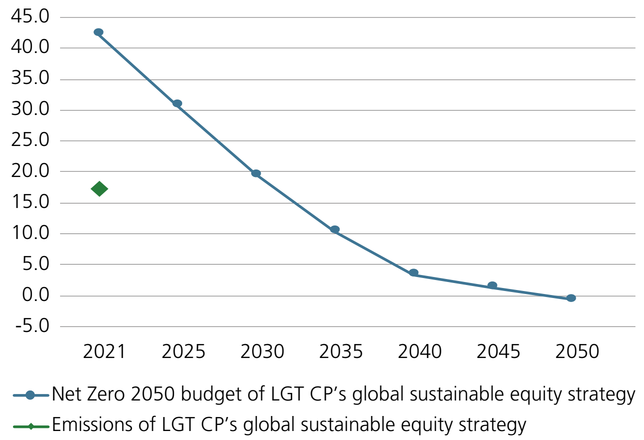
For example, investing in a company which is active in a high-emitting sector like power generation may add considerable financed emissions to the portfolio today, but it could also lead to a significant increase in the emission budget for the portfolio, taking the "carbon allowance" of the respective activity into account. The NZE enable investors to take positions in best-in-class companies within sectors that are currently high emitting and in need of transition.

We can see how this works in practice by comparing two of our direct equity strategies: the global sustainable equity strategy and the sustainable quality equity strategy. Figure 27 shows the budget and the financed emissions for the global strategy, broken down into sectors assessed using the Sectoral Decarbonization Approach (SDA – for high-emitting sectors) and the Value Added Approach (VA – for low-emitting sectors). Please see page 34 for a full explanation of the two approaches.

The only high-emitting sector under SDA that the strategy has exposure to is power generation, where the strategy has substantial exposure, resulting in a budget of 42.2 tCO_2 per million USD invested. The actual financed emissions are much lower, at 17.1 tCO_2 per million USD invested. For sectors assessed using the VA approach, such as IT, health care and communication services, the budget is much smaller, and the actual financed emissions are slightly above budget. Adding both together, the portfolio's emissions are well below its budget, resulting in a portfolio that is very well aligned with the Paris Agreement.

We note that the global strategy's allocation to power generation is well below 10% of total invested capital, but these companies together account for almost three-quarters of the overall CO_2 budget. It further illustrates the importance of well-considered investments in high-emitting sectors, such as power generation, heavy industry, transport and construction, where an investor can have an outsized impact on global emissions.

Figure 27: Emission budget of LGT CP's global sustainable equity strategy[10] (tCO_2/mln inv)



Details	Total (tCO_2/ mln inv)
Power generation budget NZE	30.2
Portfolio financed emissions power generation	**10.6**
Value added budget NZE	12.0
Portfolio financed emissions value added	**6.5**
Total 2021	**Total (tCO_2/ mln inv)**
Total budget NZE	42.2
Portfolio financed emissions	**17.1**

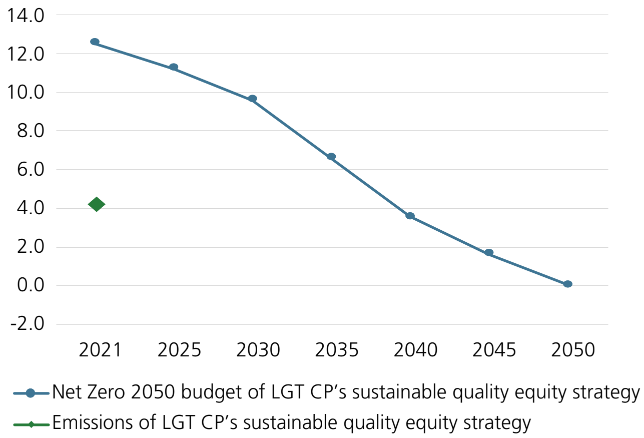
Source: LGT Capital Partners

[10] Data as of 30 March 2022. The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

By contrast, the quality strategy has very few investments in high-emitting business activities, resulting in a total budget that comes mainly from activities that are covered by the VA approach. Figure 28 shows how the budget plays out in the portfolio, which produces 4.1 tCO_2 per million USD invested, which is significantly lower than for the global strategy above. However, as there are no emission-intensive activities in the portfolio, the allocated budget of 12.5 tCO_2 per million USD invested is also much lower than for the global strategy.

This example underscores the importance of looking beyond financed emissions of a portfolio in order to align with the Paris Agreement, as the investor also has to consider the appropriate emissions budget. For example, if the emissions of the quality strategy were 20 tCO_2 per million USD invested, the portfolio would be well above its budget and, therefore, not aligned with the Paris Agreement. Nevertheless, it would show much lower total emissions than the (Paris-aligned) global strategy.

Figure 28: Emission budget of LGT CP's sustainable quality equity strategy[11] (tCO_2/mln inv)



Details	Total (tCO_2/ mln inv)
Value added budget NZE	12.5
Portfolio financed emissions value added	**4.1**

Total 2021	Total (tCO_2/ mln inv)
Total budget NZE	12.5
Portfolio financed emissions	**4.1**

Source: LGT Capital Partners

[11] Data as of 30 March 2022. The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

How the SDA and VA compare

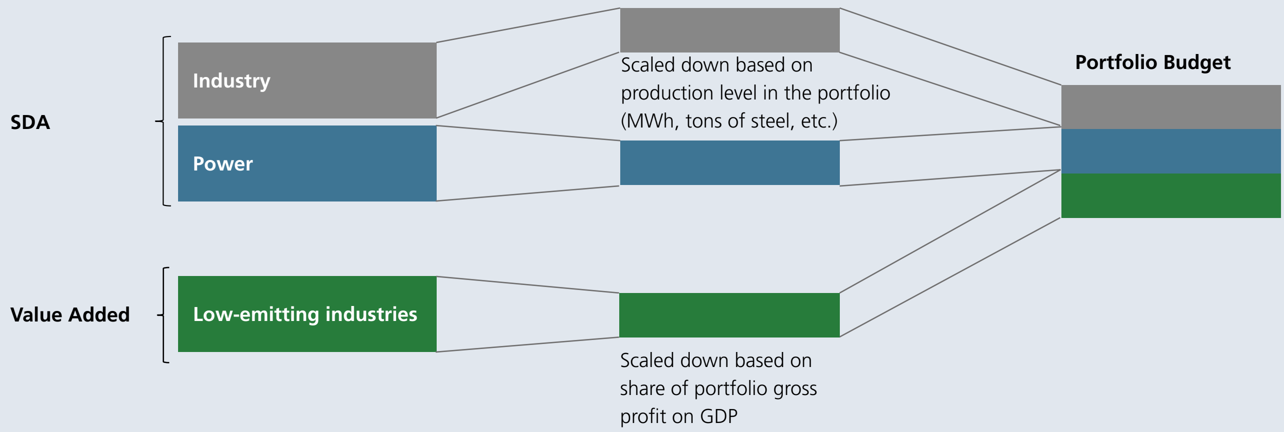
In managing our carbon budgets, we at LGT CP use the Sectoral Decarbonization Approach for high-emitting sectors and the Value Added Approach for low-emitting sectors. Using the two approaches in combination helps to manage the transition to net zero by accommodating the wide variety of companies, with different carbon footprints, that can comprise a diversified portfolio.

The SDA takes into account the inherent differences among sectors, such as mitigation potential and how fast each sector can grow relative to economic and population growth. For example, the demand for electric power is expected to increase over most time horizons, but changing technology for clean energy will likely result in a rapid and significant decrease in carbon emissions by power generators. By contrast, demand for aviation is expected to increase even more rapidly, but only a small decrease in emissions is modeled by most experts, due to the constraints of aviation technology.

One key benefit of the SDA approach is that it takes into account an orderly transition to zero emissions, given that the modern world is still dependent on many high-emitting industries. Typically, SDAs allocate an upper limit of CO_2 emissions on economic activities in terms of production figures, such as allowable CO_2 emissions per MWh of electricity produced, per tons of steel produced, and the like. According to the net zero pathway, budgeted emissions amounts taper down over time, which provides the needed push for companies to adopt cleaner technologies.

We use the VA for lower-emitting sectors, which take on the "leftover" carbon budget for a portfolio after all of the high-emitted sectors have been accounted for by the SDA. This budget is then scaled down to the individual company level by considering the amount of CO_2 allowed per dollar of gross profit, according to the global emissions budget, and multiplying it by the company's gross profit for that year.

Figure 29: SDA vs. VA carbon budgeting



Source: LGT Capital Partners

SDA alignment with the EU Taxonomy

As we have continued to develop our approach for achieving net zero, using techniques such as the SDA, we have kept in mind the worldwide growth of regulation relating to sustainability, especially in Europe. We see, for example, that the EU Taxonomy for classifying environmentally sustainable economic activities addresses many of the same concerns as the SDA. Specifically, the EU Taxonomy has defined eligible economic activities and technical screening criteria, starting with climate change adaption and climate change mitigation.

Many activities are termed "transitional" activities, meaning that they contribute to the transition to a net zero economy in 2050, but are currently far off that goal. Similar to the SDA, these activities typically have a maximum CO_2 intensity per unit of production assigned to them, and staying below that level is the first step in the activity being aligned with the objectives of the EU taxonomy.

In fact, the EU Taxonomy assigns similar levels of allowable emissions to many of the same industries that the SDA addresses, including for the production of cement, steel and electricity, to name just a few examples. Figure 30 shows a comparison of the maximum CO_2 intensities for these industries for the two frameworks, in terms of metric tons of CO_2 emitted per metric ton of production.

The respective maximum intensities of cement and steel are quite similar in the SDA and in the EU Taxonomy, but for electricity generation, the EU Taxonomy is much stricter than the SDA derived from the IEA NZE scenario. In addition, only selected forms of power generation are eligible for the Taxonomy, whereas the SDA only looks at the overall carbon intensity of power generation.

Figure 30: SDA vs. EU Taxonomy maximum intensities[12]

Activity	Maximum intensity SDA	Maximum intensity EU Taxonomy
Cement production	0.56 tCO_2/t (2021) 0.51 tCO_2/t (2025)	0.498 tCO_2/t
Steel production	1.28 tCO_2/t (2021) 1.11 tCO_2/t (2025)	1.338 tCO_2/t (hot metal)
Electricity production	0.46 tCO_2/t (2021) 0.30 tCO_2/t (2025)	0.10 tCO_2/t (specific forms only)

Source: LGT Capital Partners

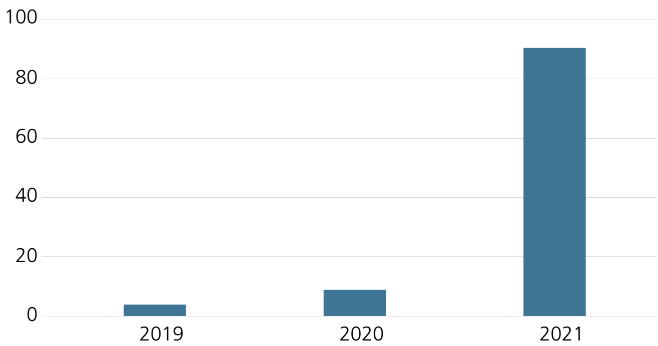
[12] Data as of 30 March 2022. "tCO_2/t" stands for metric tons of CO_2 per metric ton of production. The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Fixed Income

Integrating sustainability-linked bonds into LGT CP portfolios

LGT CP has been investing in green and social bonds for more than ten years, and they play an important role in our sustainable bond strategies. The proceeds of these bonds can only be used for specific sustainability-related projects, which creates a strong link between the money we invest and desired outcomes. Given this attractive feature, we are always looking to expand the opportunity set of bonds that are attached to specific ESG goals. In 2019, we were able to increase the investable universe again, with our first investments in sustainability-linked bonds (SLBs). They emerged as one of the fastest growing types of bonds in 2021, representing more than 10% of the overall ESG-labelled bond issuance. Similar to green and social bonds, we have developed a proprietary assessment process for analysing SLB structures.

Figure 31: The rapid growth of sustainability-linked bonds (USD billions)



Sources: Moody's ESG Solutions, Environmental Finance Bond Database and Dealogic

The assessment incorporates the EU Taxonomy and International Capital Market Association's (ICMA) SLB Principles. The process considers the link between the bond's key performance indicators and the expectations of the EU Taxonomy. This ranges from climate change mitigation and adaption to pollution prevention and control, as well as transition to a circular economy. In our assessment, we also require the bond to have undergone a second party opinion (independent and external review of the SLB's ESG features), so we can check whether the bond's KPIs represent a material transition for the company. If our internal assessment of an SLB is positive, it results in a higher ESG score for the issuer in LGT CP's proprietary scoring system – similar to how we assess green and social bonds.

How SLBs differ from green/social bonds

The biggest difference between SLBs and green/social bonds is that SLB proceeds can be freely used by the issuer, while green and social bond proceeds are earmarked for a specific ESG-related project. Generally, we prefer green/social bonds over SLBs because of the close link to specific ESG outcomes, and this preference is reflected in how we calculate ESG scores for the various types of bonds. As a result, a green or social bond from the same issuer as an SLB would normally receive a higher ESG score than the SLB. However, we do think there is a place for SLBs in a diversified sustainable fixed income portfolio because SLBs are an effective way for issuers to demonstrate their commitment to broad sustainability goals. For example, SLBs enable issuers in high-GHG-emitting industries to commit to certain ESG-related KPIs without having to designate a specific project up front. SLBs can be a part of a larger sustainable fixed income strategy, which is why we selectively allocate capital to them for our portfolios.

For example, we invested in SLBs by the global healthcare company Novartis and the global chemical and consumer goods producer Henkel, where our analysis resulted in a positive assessment. The Novartis bond is one of the few SLBs to have undergone two separate second party opinions, in a market where one is the standard. One of the second party opinions validated the KPIs related to Novartis' commitment to increasing access to medicine in low and middle income countries, while the other opinion additionally approved the alignment of the bond's structure to the sustainability-linked bond principles published by the International Capital Markets Association. Similarly, the Henkel SLB features KPIs linked to the reduction of GHG emissions and an increase in the percentage of recycled plastics in all plastic packaging of consumer products. Both bonds have meaningful sustainability targets and KPIs that are well designed to measure progress toward achieving the goals.

Guarding against greenwashing

Our assessment of more than 50 different SLBs in the last 18 months has also uncovered instances of questionable bond structures, which appeared to be driven more by the desire to greenwash than to achieve a meaningful sustainable outcome. In some cases, the KPIs were clearly not material to the issuer's business, while for others the targets were not ambitious enough to make a substantive impact, and the economic penalty for failing to meet commitments was small. For example, the SLB issued by the Italian utility company Enel included KPIs based on old GHG targets that were already very close to being achieved. In another case, the first SLB issued by the Swiss construction company Holcim featured a KPI review mechanism that was set for the last year of the bond's life – too late to influence the behavior of the issuer. Normally, such reviews take place at the midpoint in the bond's life in order to incentivize concrete sustainable actions. In both cases, we passed on the new issues as a result of our formal assessment.

In our view, KPIs of SLBs should go beyond achievements that are anyway expected to take place. KPIs should be financially material to the issuer and the targets should be ambitious relative to the issuer's history, peers and market expectations. Furthermore, we think that penalties for failure should be material to the issuer. Gradually cutting carbon emissions (in particular Scope 1 and 2 emissions), for example, or aiming for increased board diversity (already enforced by regulators) are not sufficiently ambitious targets. Instead, SLB issuers should perform a deep dive of their material issues in order to identify relevant, far-reaching targets for their business – e.g. waste or water management, biodiversity or Scope 3 emission reduction targets – that clearly demonstrate that they are sustainably moving in the right direction for their transition.

ESG integration for emerging market debt

LGT CP recently expanded its capabilities and enhanced its offering for sovereign strategies in emerging and, especially, frontier markets. In line with LGT CP's long-standing strong focus on ESG integration, this is an integral part of the emerging market sovereign country selection process. We use three main kinds of instruments in our emerging market (EM) strategies: (1) government bonds (including green, social and SDG-linked bonds), (2) FX derivatives and (3) AAA-rated bonds issued by supranational issuers, such as the World Bank and EBRD.

ESG analysis integrated into country selection framework for emerging markets

Integration of ESG factors in our country selection approach for emerging markets is based on long-term decision-making and grounded in fundamental and macroeconomic analysis. It leverages a combination of backward- and forward-looking data analysis with qualitative considerations. The country selection model classifies countries based on their economic, environmental, social and governance status and development. In the country selection process, relatively more weight is assigned to the direction and pace of the country's development than its current status.

We find that traditional ESG measures are highly correlated with income level, which results in low income countries typically scoring lower on ESG measures, while high income countries generally perform better. At LGT CP, we take this into account by comparing countries against their peer group, based on several different indicators. The idea is to identify countries that are developing positively in the long term. At the same time, the model also identifies countries which are developing in a negative direction.

In one example, the model finds that Kenya is on a positive development path, as it outperforms its peer group on various indicators, including living standards, corruption, green energy production and business environment. As a result, Kenya is investable on ESG grounds, and Kenya government bonds represent approximately 3–7% of total emerging market exposure, depending on the portfolio.[13] By contrast, ESG and economic indicators for Venezuela have been widely getting worse over time, including weakening institutions and a worsening human rights record, rising corruption, as well as deteriorating living standards and healthcare infrastructure. Due to the negative development of the various factors, LGT CP portfolios do not invest in Venezuelan government bonds.

Engagement

Pursuing active ownership is an integral part of LGT CP's sustainable investment approach. We are convinced that over the long term, a well-developed relationship between an issuer and its investors can lead to increasing shareholder value and superior returns. Over the last 15 years, the team has established a broad network consisting of numerous local and global institutions, with whom we are engaged in ongoing dialogue on a range of topics, including ESG issues. This includes both local institutions like central banks, debt offices, government ministries, independent advisors and banks, as well as global institutions like the International Monetary Fund (IMF), the World Bank, the United Nations (UN), the International Finance Corporation (IFC), and the European Bank for Reconstruction and Development (EBRD), among others. This dialogue is important to understanding the sustainable development of a country, as well as in validating the data used in the country selection model.

Figure 32: Country selection model for emerging market debt

Approach

- Not only level, but direction of development (backward and forward looking)
- Integrated approach, instead of negative screening
- Economic and institutional reform orientation

Selected most relevant indicators

Environmental	Social	Governance	Economic
Green electricity	Education	Institutional strength	Economic growth
Emissions	Health	Corruption	Economic stability
Natural resources	Standards of living	Democracy	Labour productivity
Water services	Civil liberties	Political stability	Business environment
	Gender equality		Export concentration
	Transportation and cities		

Engagement

- Ongoing interactions with local and global institutions
- Close cooperation with issuers (governments and supranationals)
- Statistical data and transparency

Source: LGT Capital Partners
SFDR classification: Sustainable Finance Disclosure Regulation Art. 8 fund(s)

[13] As of 30 March 2022.

Climate action

The urgency to act has never been greater

The year 2021 brought a watershed moment in the global efforts to avert climate change. In November, the much anticipated UN Climate Change Conference (COP26) took place in Glasgow. Just prior to that, the IPCC published its latest assessment report as a basis for policy decisions. This latest IPCC report (the sixth since 1990) further advances our scientific understanding of climate change, its damage to the planet's ecosystem, and the future pathways to avert them. The report makes it clear that there is an urgent need for everyone to step up and accelerate their efforts. For LGT CP, this means further developing our climate action strategy, especially as it pertains to the LGT endowment, a USD 18 billion portfolio that we manage for the Princely Family of Liechtenstein and clients who invest alongside them. We have committed to decarbonizing the portfolio in line with the Paris Agreement and to enhancing the overall climate resilience of the portfolio.

Climate action for the LGT endowment: a holistic framework

To address climate change in the LGT endowment and its underlying building blocks, we have implemented a framework for climate action around two core objectives:
1.) Drive the energy transition and decarbonization
2.) Build climate-resilient portfolios

The first objective is about measuring the greenhouse gas emissions for individual portfolio holdings and taking the necessary steps to decarbonize the portfolio over time, in line with the Paris agreement. The second objective is more top-down in nature, as it focuses on identifying critical vulnerabilities within the strategy by stress-testing the investment portfolio against adverse future pathways. Based on this analysis, portfolio managers can reallocate capital, where necessary, in order to make the overall portfolio more resilient to physical and transition risks related to climate change.

Concrete actions can be taken either bottom-up, through stringent security selection and engagement efforts, or top-down through reallocation of capital between asset classes or underlying segments. We summarize some of the actions that we have taken and plan to take in the LGT endowment in Figure 33.

Figure 33: Examples of climate action taken in the LGT endowment

Avoid/reduce	Engage	Invest	Re-allocate
▪ Excluded all companies that derive significant revenues from thermal coal production from investable universe	▪ For our indirect holdings, we engage with our managers to align their portfolios with our science-based emission budget	▪ Increased allocations to climate solutions, such as renewable energy infrastructure and green bonds	▪ Shifted exposure within ILS from natcat perils (such as floods and wildfires) to non-atmospheric perils
▪ Divested from companies whose emission pathways are completely inconsistent with the goals of the Paris agreement	▪ For our direct holdings, we engage selectively with portfolio companies to improve their ESG profile and carbon footprint	▪ Investment in "Crown impact" strategy to increase exposure to green business models with a measurable impact	▪ Tilted our emerging market equity allocation away from broad, commodity-exporting countries to skill-based economies in Asia
▪ Demand further scrutiny and limit commitments to companies with significant physical and transition risks (e.g. climate risk analysis in private debt allocation)	▪ Engagement from direct fixed income team with large US bank on their climate risk stress testing framework	▪ Increased allocation in Spanish utility company that is active in building capacity for renewable power generation and transmission	▪ Shifted capital away from extractive industries into more service-oriented equity segments

Source: LGT Capital Partners

Decarbonizing investment portfolios and driving the energy transition

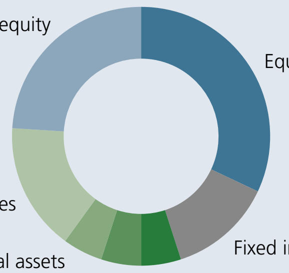
For large companies with publicly traded securities, there is already a rich set of ESG-data available in the market, including metrics on GHG emissions. However, the LGT endowment invests over the entire spectrum of asset classes, with a strong focus on alternatives and private markets, which poses challenges for both collecting reliable data and applying sound methodologies. This is why we have developed our own framework for measuring and monitoring GHG emissions in the portfolio. Today, we can calculate emissions for 72% of the LGT endowment's net asset value, with a focus on corporate assets. For private equity, we use estimates based on industry averages. For other asset types, such as ILS and sovereign bonds, no established measurement framework exists yet, and best practices are under development.

To decarbonize, we have defined an emission budget for the main asset classes, in an approach that is described in the "Public equity" section of this report. Through consistent efforts across the major asset classes, we were able to reduce GHG emissions in the LGT endowment by nearly 30% in 2021. This brings the portfolio emissions to a level that is currently 11.6% below the Paris-aligned emission budget for 2022, and therefore in line with the emission pathways of the Paris agreement. Figure 35 shows more details on the alignment of the LGT endowment with the Paris agreement and the emission reductions of the various asset classes. As the path and our commitment to net zero is set, the journey still requires our full attention and best efforts, now and in the future.

The LGT endowment at a glance

LGT CP has been managing and investing a combined portfolio of traditional and alternative investments, the LGT endowment, for over 20 years. Today, this strategy has USD 18 billion of assets under management, including a significant investment of USD 3 billion by our shareholder, the Princely Family of Liechtenstein. Its investment mandate is to achieve long-term asset growth with moderate volatility and a strong focus on sustainability. It is a broadly diversified multi-asset portfolio with an emphasis on alternatives, similar to that of US endowment funds, combining the entire investment platform of LGT CP.

Figure 34: Strategic asset allocation of the LGT endowment



Sources: LGT Capital Partners

Figure 35: Paris-alignment and decarbonization of LGT endowment[14]

Asset class in LGT endowment	Current Allocation	GHG of portfolio vs. Paris-aligned budget 2022	Reduction in GHG in 2021
Equity	32.5%	-12.1%	-23.0%
Fixed Income	14.1%	2.4%	-4.5%
Real Assets	5.7%	0.3%	-0.5%
ILS	5.3%	not applicable	not applicable
Liquid Alternatives	15.7%	-0.2%	-1.0%
Private Equity	22.0%	-2.0%	-0.1%
Cash/other	4.7%	0.1%	0.0%
LGT endowment portfolio	**100.0%**	**-11.6%**	**-29.1%**

Source: LGT Capital Partners

[14] The GHG figures represent contributions and are, therefore, weighted by the allocation of the respective asset class.

LGT CP participation in the Net Zero Asset Managers initiative

LGT CP joined the Net Zero Asset Managers initiative in March 2021, which aims to galvanize the asset management industry to commit to a goal of net zero emissions by 2050 or sooner. As per February 2021, the Net Zero Asset Managers initiative had a total of 236 signatories representing USD 57.5 trillion in assets under management. To ensure real world progress ahead of 2050, the asset manager signatories have committed to set interim targets for 2030, consistent with a fair share of the 50% global reduction in GHG identified by the IPCC to halt global warming at 1.5°C.

By joining the initiative, we have committed ourselves to transparent and rigorous accountability. Therefore, we disclosed by end of March 2022 the proportion of assets to be managed in line with net zero, our methodology for the Paris alignment and interim targets for emission reductions. We will also annually report progress against the TCFD recommendations, including setting out a climate action plan and submitting this for review by peers. This will ensure the approach applied is based on a robust methodology, consistent with the Race to Zero criteria, and action is being taken in line with these commitments.

About us

LGT Capital Partners is a leading alternative investment specialist with over USD 85 billion in assets under management and more than 600 institutional clients in 42 countries. An international team of over 600 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, Raleigh, Dublin, London, Frankfurt, 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. Tycho Sneyers, a managing partner and chairman of the firm's ESG Committee, has served on the PRI board of directors since 2018. LGT CP also participates in the Carbon Disclosure Project (CDP) and the European Sustainable Investment Forum (Eurosif), the Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+.

In 2020, the PRI awarded LGT CP scores of A or A+ across all modules evaluated in its annual RI Assessment Report.

PRI

Eurosif

Swiss Sustainable Finance

FNG
Forum Nachhaltige Geldanlagen

IIGCC
The Institutional Investors Group on Climate Change

Climate Action 100+

The Green Bond Principles

CDP
DRIVING SUSTAINABLE ECONOMIES

Swiss Climate Foundation

Aluminum recycling, Ball Corporation, LGT CP sustainable bond portfolio

Pfaeffikon (Switzerland)
Schuetzenstrasse 6
CH-8808 Pfaeffikon
Phone +41 55 415 96 00

San Francisco
Suite 1330, Floor 13
580 California Street
San Francisco, CA 94104
Phone +1 628 201 0050

New York
30th Floor
1133 Avenue of the Americas
New York, NY 10036
Phone +1 212 336 06 50

Dublin
Third floor
30 Herbert Street
Dublin 2
Phone +353 1 433 74 20

London
1 St. James's Market
London SW1Y4AH
Phone +44 20 7484 2500

Paris
43 Avenue de Friedland
75008 Paris
Phone +33 1 81 80 5600

The Hague
Pr. Beatrixlaan 582
NL-2595 BM The Hague
Phone +353 1 433 7420

Luxembourg
21-25, Allée Scheffer
2520 Luxembourg
Phone +352 27 86 65 83

Frankfurt
Neue Mainzer Strasse 6-10
60311 Frankfurt am Main
Phone +49 69 505060 4701

Vaduz
Herrengasse 12
FL-9490 Vaduz
Phone +423 235 25 25

Dubai
Office 7, Level 3, Gate Village 10
Dubai International Financial Centre
P.O. Box 125115
Dubai, United Arab Emirates
Phone +971 4 401 9900

Beijing
Floor 61/Unit 01, China World Tower 3B
1 Jianguomenwai Ave
Chaoyang District
Beijing, P.R. China 100004
Phone +86 10 6505 8225

Hong Kong
4203 Two Exchange Square
8 Connaught Place Central
G.P.O. Box 13398
Hong Kong
Phone +852 2522 2900

Tokyo
9th Floor, Okura Prestige Tower
2-10-4, Toranomon, Minato-ku
Tokyo 105-0001
Phone +81 3 4580 6930

Sydney
Suite 40.04, Level 40
264 George Street
Sydney NSW 2000
Phone +61 2 7908 7777

Legal Information

This marketing material was produced by LGT Capital Partners and/or its affiliates (hereafter "LGT CP") with the greatest of care and to the best of its knowledge and belief following the principles of good faith. LGT CP provides no guarantee with regard to its content and completeness and does not accept any liability for losses which might arise from making use of this information. The opinions expressed in this document are those of LGT CP at the time of writing and are subject to change at any time without notice. If nothing is indicated to the contrary, all figures are unaudited. This document is provided for information purposes only and is for the exclusive use of the recipient. It does not constitute an offer or a recommendation to buy or sell financial instruments or services and does not release the recipient from exercising his/her own judgment. LGT CP recommends the recipient checking whether the information provided is in line with his/her own circumstances with regard to any legal, regulatory, tax or other consequences, if necessary with the help of a professional advisor. This document may not be reproduced either in part or in full without the written permission of LGT CP. It is not intended for persons who, due to their nationality, place of residence, or any other reason are not permitted access to such information under local law. Every investment involves risk, especially with regard to fluctuations in value and return.
Investments in foreign currencies involve the additional risk that the foreign currency might lose value against the investor's reference currency. It should be noted that historical returns and financial market scenarios are not a guarantee of future performance.

ESG disclosures

The sustainable long-only equity and bond strategies as well as the most recent private debt strategy mentioned in this document, are considered to meet the criteria of an Art. 8 strategy under EU 2019/2088. Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, these strategies present disproportionate communication on the consideration of non-financial criteria in their investment policy. Further, it is considered that the names of these strategies are disproportionate to the AMF's consideration of non-financial criteria. The "do no significant harm" principle applies only to those investments underlying the strategy that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.
For all other strategies mentioned in this document, investors should note the Investment Manager's assessment of ESG characteristics may change over time and the ESG conclusions of the Investment Manager might not reflect the ESG views of investors. There is no guarantee that a company meets the expectations in relation to ESG. LGT CP integrates an assessment of Sustainability Risks into its investment processes. The results of this assessment and the potential impact on returns may vary. LGT CP or the appointed manager may rely on third-party ESG data or research providers to produce any ESG-related analysis. Such data or research may be imprecise, incorrect or unavailable and the resulting analysis may be impacted. It is considered that the policies adopted to assess and mitigate Sustainability Risks may mitigate such risks to the strategy. The investments underlying the strategy do not take into account the EU criteria for environmentally sustainable economic activities. Further details on ESG integration and sustainability-related stewardship can be found on lgtcp.com.

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

www.lgtcp.com