



# LGT Capital Partners TCFD Report 2023



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# Message from the CEO

Dear Stakeholders,

At LGT Capital Partners, we recognize the scale of the challenges created by climate change and the growing direct and indirect impacts that it will have on the financial landscape as global temperatures rise and extreme weather events become more frequent—affecting all market participants. Against this backdrop, we believe that asset managers like our firm can play an important role in supporting the transition to a low-carbon economy—especially through the allocation of capital to companies or sectors whose products, services and solutions can help to protect the climate and mitigate the impacts of global warming. At the same time, LGT Capital Partners is committed to integrating climate considerations into our investment strategies, to protecting the assets that we manage.

Transparency is of fundamental importance in this context. We believe in providing our stakeholders with comprehensive and accurate information to enable informed decision-making and to build relationships of trust. This TCFD Report reflects our commitment to transparently disclosing climate-relevant information about our investment approach and our operations, and it outlines our efforts to follow the recommendations of the Task Force on Climate-related Financial Disclosures.

In 2023, we continued our efforts to integrate climate considerations into our overall strategy, risk management processes and decision-making frameworks. Progress during the year include becoming a signatory to the Net Zero Engagement Initiative (NZEI) that was launched in March 2023 by the Institutional Investors Group on Climate Change (IIGCC) to support investors in aligning their portfolios with climate goals. LGT Capital Partners was already a member of the Net Zero Asset Managers Initiative (NZAM), reflecting our commitment to reduce our portfolio emissions each year in order to achieve the goal of net zero by 2050 or sooner. In the rapidly evolving private equity landscape, we also intensified our efforts to gather and analyze additional climate-

related data for our private equity strategies. We are convinced that our focus on data-driven insights will further enhance our decision-making processes, enabling us to navigate market dynamics more effectively and to optimize our investment strategies.

We also took proactive steps to enhance sustainability-related governance structures in 2023 by establishing two additional ESG committees: the Corporate Social Responsibility (CSR) sub-committee and the ESG Regulation sub-committee. The CSR sub-committee reflects our commitment to operating sustainably and to upholding responsible business practices. The ESG Regulation sub-committee plays a key role in helping the firm to navigate rapidly evolving sustainable regulatory developments and in ensuring that our practices are aligned with the latest industry standards.

These various measures demonstrate our targeted efforts to drive innovation, collaboration and responsible business practices at LGT Capital Partners with the aim of adapting to industry changes. As we look ahead, we know that there is much more work to be done, and we remain steadfast in our commitment to driving positive change. In doing so, we not only aim to generate meaningful impact but are also seeking to diversify sources of returns for our clients. We want to ensure that our clients' investments are focused on companies that are positioned for long-term success. Going forward, we will continue to actively engage with our stakeholders, including investors, employees and communities, to foster a shared understanding of climate risks and opportunities and to work towards sustainable solutions.

I would like to take this opportunity to express my gratitude to our clients, our owner, our staff members and other stakeholders for their ongoing support and commitment to achieving our shared sustainability goals. I am convinced that together, we can make a meaningful difference in addressing climate change and building a more resilient future for generations to come.

Sincerely,  
Roberto Paganoni, CEO  
LGT Capital Partners

# Who we are

## The firm

LGT Capital Partners is a privately-owned global multi-alternatives firm with a sustainable investment approach. We serve institutional clients around the world who are primarily invested in alternative asset classes and multi-asset products and have over USD 100 billion of assets under management. We provide investment solutions that leverage our expertise in private markets, diversifying strategies as well as dedicated sustainable and impact strategies.

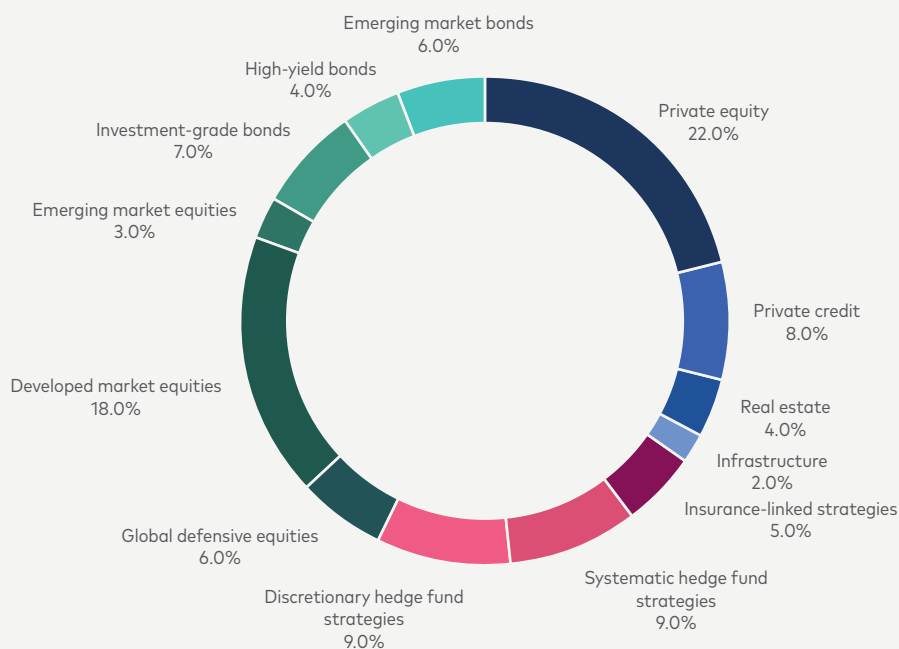
Our firm dates back to 1998 and is privately owned by the Princely Family of Liechtenstein. We manage the LGT Endowment (see below) based on a long-term and sustainable investment approach. As a principal investor, we invest in our own strategies alongside our clients. The Princely Family and LGT employees have co-invested over USD 4 billion in our funds, demonstrating the close alignment of our interests with those of our clients.

With a strong and stable global platform, we are ideally positioned to partner with our more than 700 institutional clients around the world. They are served by over 800 professionals who combine global knowhow with specialist local investment expertise to meet individual client needs and are based in 15 offices in major investments hubs in Europe, North America and Asia-Pacific.

## LGT Endowment

The Princely Family of Liechtenstein established LGT Capital Partners in 1998 with a clear objective: to deliver equity-like returns and capture significant market upside, while being cushioned on the downside—ideally in the range of 2/3 to 1/3, similar to the approach taken by university endowment funds in the US. Based on this fundamental idea, we developed a long-term and, above all, pioneering investment strategy consisting of at least 50% alternative investments.

The LGT Endowment has become one of the largest funds of its kind in Europe and includes a comprehensive ESG integration and climate budgeting framework. Its investment universe is unconstrained and encompasses a wide range of attractive global opportunities.



## Our sustainable commitments

At LGT Capital Partners, our long-term perspective and focus on ESG integration are core elements of our investment approach and corporate culture. We believe that a long-term investment approach, coupled with a strong focus on environmental, social and governance (ESG) principles, is essential to achieve sustained success. This applies to our investment activities and to the solutions we deliver to our clients, as well as to our business operations as a whole. Our ESG commitment dates back to early 2000. Over time, our engagement in the ESG space has grown and evolved continuously as new opportunities have emerged.

### Focus on outcomes

A key aspect of our approach to ESG and sustainable investing is our longstanding focus on measurable outcomes. For a global investor like LGT Capital Partners, which invests across asset classes and strategies, outcomes are measured in different ways. For our multi-manager strategies, such as private markets, hedge funds and long-only, we focus on the ESG practices of our managers, from aligning portfolios to meet carbon emission reduction targets to increasing the integration of diversity, equity and inclusion (DEI)

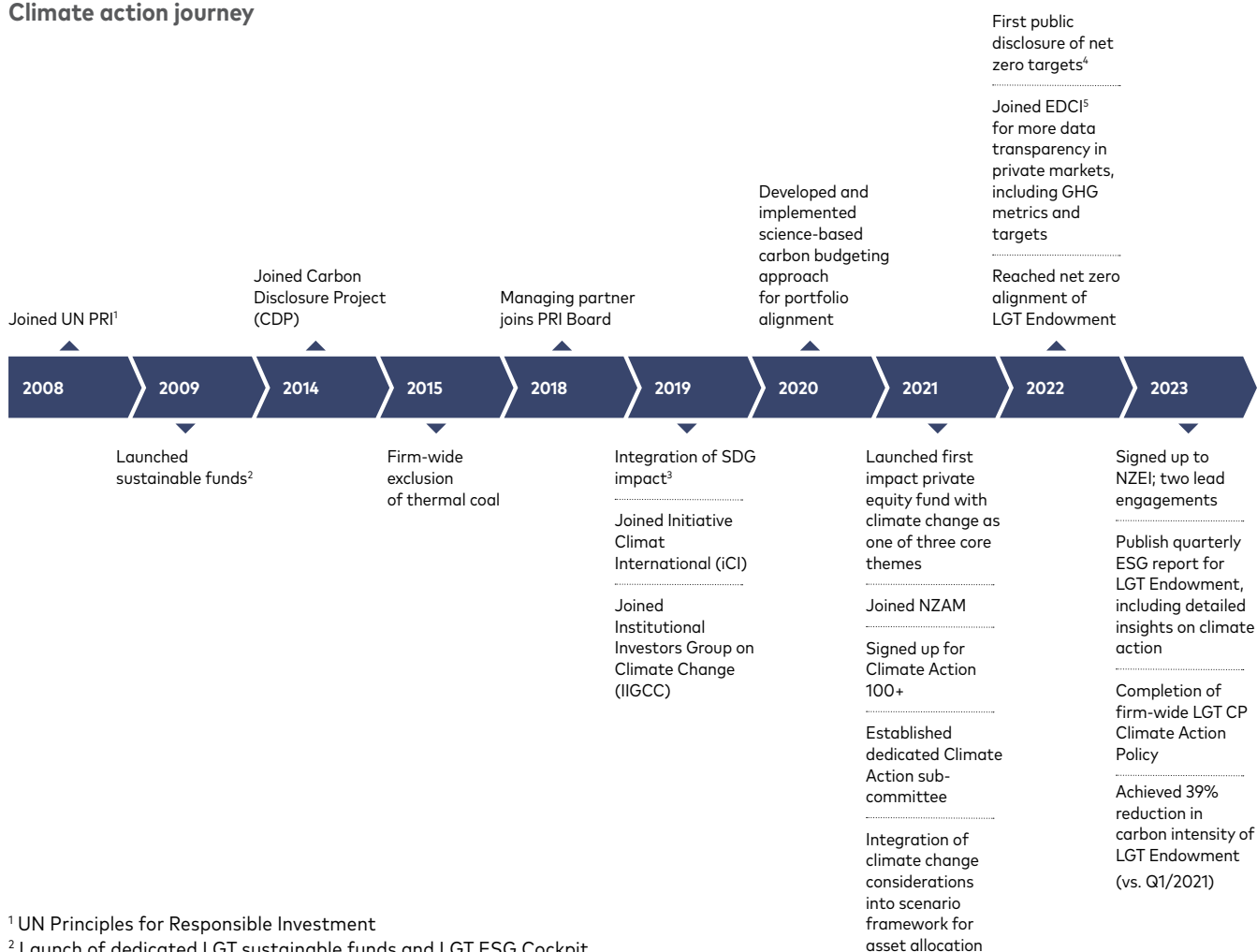
aspects into investment decision-making processes. For direct investment strategies, for example, we assess how closely our public equity and fixed income portfolios are aligned with the Sustainable Development Goals (SDGs). Finally, for insurance-linked strategies (ILS), we consider whether transactions are in line with our high ESG standards and are effective in mitigating environmental or social risks.

### Focus on climate change

We have been addressing climate change for many years as part of the ESG framework that we apply to our investment activities. We began by integrating greenhouse gas (GHG) emissions and other environmental metrics into our investment due diligence and monitoring processes. Over time, this evolved into a carbon budgeting framework for companies, which was initially applied to our direct public investment activities. We have also integrated numerous climate-related data points and key performance indicators (KPIs) into our proprietary ESG assessment tool, the LGT ESG Cockpit.

LGT Capital Partners is a signatory to the NZAM and we are committed to reaching net zero GHG emissions by 2050 or sooner, across all assets under management.

## Climate action journey



<sup>1</sup> UN Principles for Responsible Investment

<sup>2</sup> Launch of dedicated LGT sustainable funds and LGT ESG Cockpit

<sup>3</sup> UN Sustainable Development Goals

<sup>4</sup> NZAM Initial Target Closure Report May 2022

<sup>5</sup> ESG Data Convergence Initiative

Source: LGT Capital Partners



# About this report

At LGT Capital Partners, we strive to providing accurate, transparent and consistent disclosures on financial and non-financial matters. As part of this commitment, we recognize the importance of the TCFD framework, which is designed to facilitate a standardized approach to climate-related financial disclosures and to promote more informed investment decision-making. This, in turn, will enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

This report contains information on our governance structure and outlines how climate-related considerations are embedded in our decision-making processes. It also describes our strategic approach, explaining how we assess and manage climate-related risks and opportunities to enhance the resilience and sustainability of our investment portfolios. Additionally, we provide insights into our risk management practices, including the methodologies that we use to identify and measure climate-related risks.

## Scope of this report

This TCFD Report covers the period from 1 January 2023 to 31 December 2023. It was approved by the Executive Committee on 8 April 2024.

We believe that through collaboration, disclosure and a proactive stance on climate-related matters, we can contribute to a sustainable and resilient global financial system. This report demonstrates our commitment to transparency and responsible investment practices and our role in creating long-term value for our clients in an era shaped by the challenges and opportunities of climate change.

The report covers entities and/or selected entities, as deemed relevant in this context, that are controlled or held by LGT Capital Partners Group Holding.





# Governance

## Organizational framework

This Governance section provides a comprehensive overview of the organizational framework, policies and practices that govern our approach to addressing climate-related risks and opportunities.

At LGT Capital Partners, two governing bodies are responsible for managing climate-related matters:

- The Board of Directors, as the most senior governing body, provides strategic leadership and oversight including the integration of climate-related considerations in our risk management processes and investment decisions.
- The Executive Committee is responsible for the oversight of daily operations and defining steps to implement the Board's strategic direction, including climate change.

The Board of Directors has ultimate responsibility for and oversight of LGT Capital Partners' commitment to reaching net zero by 2050 or sooner. Its role in overseeing sustainability is vital to ensure that ESG considerations are integrated into our strategy and operations and that sustainable practices are implemented effectively.

The Chairman of the Board of Directors, H.S.H. Prince Max von und zu Liechtenstein, brings extensive sustainability expertise to the role and is able to provide key insights to the Board when reaching decisions on sustainability-related matters and to foster a clear understanding of climate action. In 2007, he established LGT Venture Philanthropy, which made its first impact investment in 2009. The impact investing portfolio that evolved from LGT Venture Philanthropy formed the basis for the establishment of Lightrock, a dedicated impact manager. This clear view of climate-related risks and opportunities at Board level is a key factor that has driven LGT Capital Partners' decision to dedicate significant efforts and resources to addressing the topic of climate action.

The Board of Directors met four times in 2023 (in March, June, October and December) and ESG and climate-related topics were addressed at all of its meetings. The CEO Report that is submitted to the Board of Directors before each meeting always includes a section on sustainability, including climate action. For instance,

at its March meeting, the Board of Directors discussed in detail the commitment to achieving net zero by 2050 or sooner that LGT Capital Partners has defined for the LGT Endowment. In addition, two Board members completed the "Understanding ESG" course that we launched in 2023 as part of the firm-wide effort to deliver ESG training. For further information, see the "ESG training" section.

The Board of Directors and the Executive Committee collaborate closely to ensure effective decision-making, strategic planning and the effective overall management of the firm. The Executive Committee is responsible for daily operations and the implementation of the Board's strategic direction. It is led by Chief Executive Officer (CEO) Roberto Paganoni and includes the top executives responsible for various functions, including Finance, Operations, Fund Management and Risk & Compliance.

The Executive Committee meets on a monthly basis, and ESG topics—including climate action—are a standard agenda item at those meetings. An ESG update is provided by the Chief Risk Officer, the Head of ESG for Liquid Markets or Private Markets. In 2023, agenda items related to climate action ranged from updates on the Climate Action Framework to the approval of the firm's Climate Action Policy.

## ESG Committee

To ensure the integration of ESG and climate action topics across the organization, LGT Capital Partners has established an ESG Committee with sub-committees. The dedicated sub-committees focus on specific areas, including Liquid Markets, Private Markets, Policy & Governance, Climate Action, ESG Regulation, Corporate Social Responsibility and Diversity, Equity and Inclusion.

The ESG Committee and its various ESG sub-committees are responsible for the bottom-up development of methodologies, addressing strategic ESG-related requirements, coordinating policies and procedures across the areas of investment management, reporting, risk management and client services. The ESG Committee meets on a monthly basis and reports regularly to the Executive Committee. The ESG Committee is chaired by Tycho Sneyers, a Managing Partner at LGT Capital Partners and a member of the Board of PRI since 2018.

The ESG sub-committees are as follows:

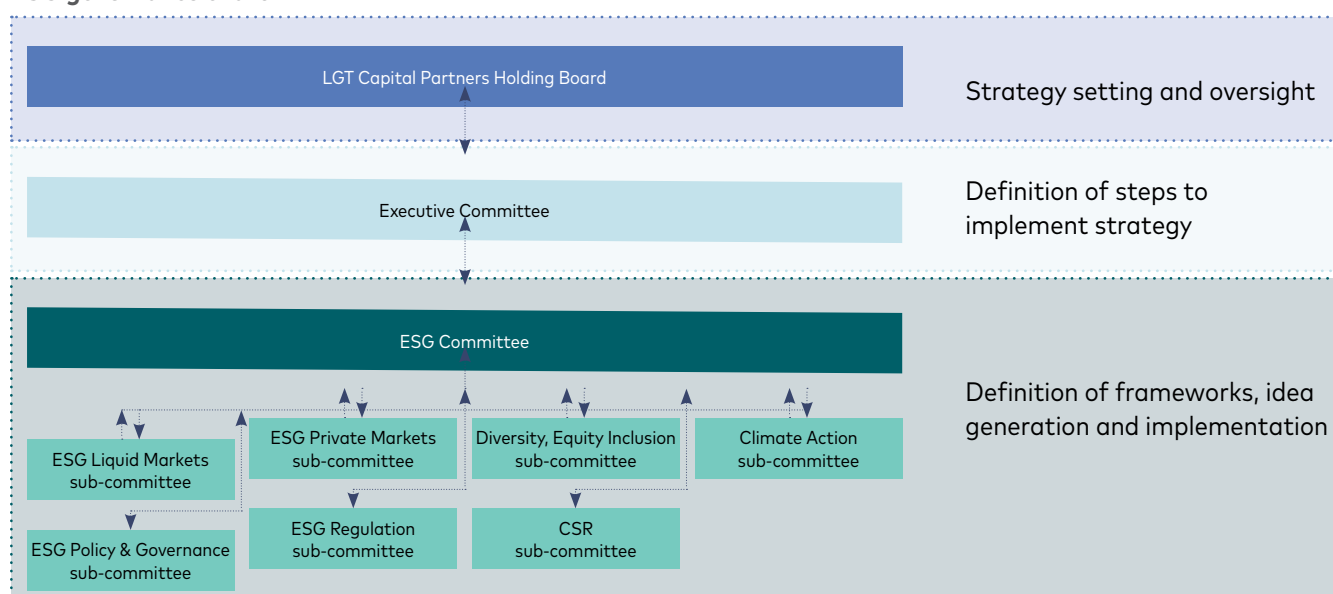
- ESG Liquid Markets sub-committee: responsible for ESG processes and implementation within liquid asset classes, methodological aspects and the further development of the ESG Cockpit, the tool that drives our ESG integration and analysis process.
- ESG Private Markets sub-committee: responsible for ESG processes and implementation within private markets, including manager ratings, and ESG implementation in direct investments.
- Diversity, Equity & Inclusion sub-committee: responsible for all diversity and inclusion topics.
- Climate Action sub-committee: responsible for climate-related topics, the development of methodologies, emission reduction targets and the climate GHG framework.
- ESG Policy & Governance sub-committee: responsible for ESG policies, standards and interpretation, validity and adequacy of ESG approaches across business units, and the high-level interpretation of regulatory requirements.
- ESG Regulation sub-committee: responsible for establishing, coordinating, advising on and overseeing the implementation of ESG regulations and initiatives within the firm, including across business units and investment products.

- Corporate Social Responsibility sub-committee: responsible for initiating, coordinating, advising on, overseeing and challenging the implementation of CSR initiatives across the firm.

LGT Capital Partners established its Climate Action sub-committee in 2021 to highlight the importance it assigns to the topic and to ensure that appropriate resources are allocated to addressing climate-related matters. The sub-committee's objective is to drive the firm's climate action agenda and enable investment teams to manage assets in line with the net zero commitment. The committee meets at least eight times per year and the minutes of each meeting are shared with the ESG Committee, including its sub-committees, and with the Executive Committee and the Board of Directors. If the members of the Climate Action sub-committee are unable to reach unanimous agreement on a climate-related matter, the topic is escalated to the ESG Committee, or in the case of methodological or policy-driven questions, to the Policy & Governance sub-committee.

The Chief Risk Officer and other employees in the Risk Management & Compliance department play an active role in the ESG Committee and can attend the respective ESG sub-committees.

## ESG governance chart

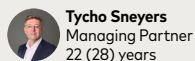




## ESG governance

### ESG Committee

#### Committee Chairman



**Tycho Sneyers**  
Managing Partner  
22 (28) years

#### Liquid Markets



**Hanna Edström**  
Executive Director  
14 (18) years

#### Diversity, Equity Inclusion



**Martha Heitmann**  
Partner  
16 (19) years

#### Marketing Communication



**Sebastian Kistner**  
Executive Director  
1 (20) years

#### Liquid Markets



**Alex Borer**  
Partner  
27 (33) years

#### Business Development



**Tom Carstensen**  
Principal  
8 (34) years

#### Private Markets



**Keimpe Keuning**  
Principal  
6 (23) years

#### ESG Regulation



**Henry Nordström**  
Associate Director  
4 (7) years

#### Fixed Income



**Mark Rall**  
Partner  
15 (27) years

#### Climate Action



**Peter Sigg**  
Executive Director  
17 (23) years

#### Risk & Compliance



**Werner von Baum**  
Managing Partner  
19 (35) years

#### LGT ESG Cockpit



**Alexander Zanker**  
Executive Director  
13 (23) years

### ESG sub-committees

#### Liquid Markets



**Hanna Edström**  
Executive Director  
14 (18) years

+13 professionals

#### Private Markets



**Keimpe Keuning**  
Principal  
6 (23) years

+8 professionals

#### Diversity, Equity Inclusion



**Martha Heitmann**  
Partner  
16 (19) years

+7 professionals

#### Climate Action



**Peter Sigg**<sup>1</sup>  
Executive Director  
17 (23) years

+6 professionals



**Alexander Zanker**<sup>1</sup>  
Executive Director  
13 (23) years

#### Policy & Governance



**Werner von Baum**  
Managing Partner  
19 (35) years

+5 professionals

#### ESG Regulation



**Henry Nordström**  
Associate Director  
4 (7) years

+10 professionals

#### CSR



**Ruud Wilders**  
Partner  
5 (22) years

+5 professionals

### Regional ESG coordinators

#### North America



**Peter Egli**  
Executive Director  
7 (12) years

#### Asia



**Mikio Kumada**  
Executive Director  
21 (29) years

<sup>1</sup> Co-Chair

xx (xx) years = years at LGT (years investment experience)

Source: LGT Capital Partners, data as of 31 December 2023

# Strategy

## Climate Action Strategy

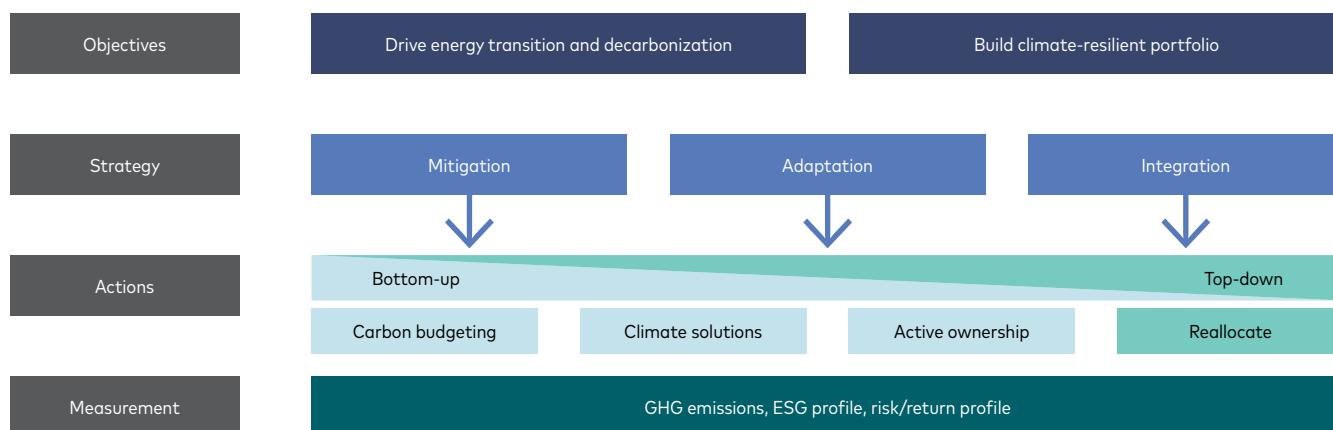
At LGT Capital Partners we recognize that conventional business methods may not ensure future success and we understand the importance of ESG factors in the current corporate environment. Based on this perspective, we want to create lasting value for our clients by embedding sustainability in our business practices through ESG integration.

Our commitment to net zero by 2050 or sooner shows that we want to be a positive force in the move to net zero. We are actively developing suitable products for clients and are using our levers of influence to support feasible pathways to decarbonization. How we manage the climate risks within our portfolios and engage with investee companies as they transition to a more sustainable future will also be key to ensuring our continued success.

As a member of NZAM, we are committed to reducing the carbon intensity of the assets we invest in on behalf of our clients to support the transition to net zero. Our interim investment target is to reduce the carbon intensity of the in-scope assets we invest in by 50% by 2030 versus a 2020 baseline.

To achieve these targets and to align our portfolios, we have developed a comprehensive climate action framework. We decided to apply the framework to the LGT Endowment first, as it is well positioned from an implementation perspective due to its broad diversification across asset classes. It also has the advantage that all relevant investment teams are involved and are working towards the same objective. In the following sections of the report, we provide further insights and details on our Climate Action Framework and how we integrate climate action into our investment portfolios.

### Climate Action Framework





## Objectives

As a firm and an investor, LGT Capital Partners is working to identify and address the impacts of climate change in our portfolios. As part of these efforts, in 2021 we defined a Climate Action Framework that focuses on two core objectives:

The first objective involves measuring the GHG emissions of individual portfolio holdings and taking the necessary steps to decarbonize the portfolio over time, in line with the goal to achieve net zero by 2050 or sooner.

The second objective is strategic in nature, as it seeks to identify critical vulnerabilities within the investment strategy. Based on this analysis, portfolio managers can reallocate capital where necessary in order to make the overall portfolio more resilient to climate-related physical and transition risks. The objectives demonstrate our commitment to measuring and managing both directions of impact, in line with the principle of double materiality. From an investor's perspective, double materiality implies that both the external factors that may affect a company's financial performance (external materiality) and the company's own impact on society and the environment (internal materiality) are considered making investment decisions.

**Drive energy transition and decarbonization**

**Build climate-resilient portfolios**

## Climate Action Strategy

To deliver on the two goals of our Climate Action Framework, we have defined a Climate Action Strategy that is built on three dimensions:

### Mitigation

We want to tackle the causes and minimize the possible impacts of climate change.

### Adaptation

We are focused on providing capital to businesses that help communities to cope with the negative impacts of climate change, while harnessing potential new opportunities.

### Integration

We consider climate-related factors at every stage of the investment decision-making process.

## Actions

Our Climate Action Framework has four main levers to help us reach our targets:

### Carbon budgeting:

Increasing exposures to single companies or entire sectors, whose emission pathways are aligned with the goal of net zero emissions by 2050.

### Climate solutions:

We aim to invest in climate solutions, e.g. through allocations to green bonds and the renewable infrastructure segment. Further, our investment teams continue to identify investments that can make a positive contribution to mitigating climate change.

### Active ownership:

Engaging with companies held in our direct strategies and with our managers is a priority. By actively using our voice, through both engagement and voting, we can help drive the necessary change.

### Reallocating capital:

Moving capital away from concentrated transition and physical risks to strategies and sectors that are much richer in sustainable and climate-related investment opportunities. Based on our scenario framework, we aim to avoid concentrated climate-risk allocations and to build climate-resilient portfolios.

The specific approach to implementation in a portfolio depends on:

- The nature of the asset class;
- The availability of relevant data and robust methodologies; and
- whether it is implemented through direct investments or third-party managers.

Our liquid market portfolios are already at an advanced stage in terms of the implementation of the above strategy. For our private market portfolios, however, the strategy will be implemented gradually over time. This is due to the illiquidity of the portfolios and it depends, among other things, on methodological developments, net zero commitments by the underlying managers and improved data availability. In the meantime we are following the recommendations set out in the IIGCC private equity guidance released in 2023.

Since fossil fuel investments have a significant effect on the first lever (carbon budgeting), we have defined specific policies for these investments. LGT Capital Partners has a coal exclusion policy<sup>1</sup> that applies to all directly managed strategies and a comprehensive fossil fuel policy<sup>2</sup> that applies to the firm's directly managed sustainable equity and fixed income strategies.

## Position on carbon credit markets

To achieve the target of net zero, mandatory and voluntary carbon markets are becoming increasingly important and can represent an integral part of a comprehensive climate action strategy. While we continue to focus on our defined levers to decarbonize portfolios, we recognize the relevance of purchasing CO<sub>2</sub> certificates for offsetting in certain situations. LGT Capital Partners is following the principles on voluntary carbon offsetting established by the IIGCC.

<sup>1</sup> Find more here: [https://www.lgt.com/resource/blob/31762/dc7a7ee368e3a19c410853f47ec90e50/Controversial\\_Coal\\_Policy\\_2024\\_en.pdf](https://www.lgt.com/resource/blob/31762/dc7a7ee368e3a19c410853f47ec90e50/Controversial_Coal_Policy_2024_en.pdf)

<sup>2</sup> Find more here: <https://www.lgtcp.com/files/restricted/2024-02/LGT-Sustainable-Strategies-Positioning.pdf>



# Strategy

## Methodology and targets

Target	Scenario	Goal	Approach	CO <sub>2</sub> emission pathway
Net zero by 2050 with intermediary target of -50% GHG emission reduction by 2030	IEA Net Zero 2050 Scenario (NZE)	Limiting the rise in global temperatures to 1.5 °C above pre-industrial levels	Science based: Combination of Sector Decarbonization Approach and Value Added Approach	Nearly 40% reduction between 2020 and 2030 for global energy-related and industrial process CO <sub>2</sub> emissions

### Net zero commitment for our investments

In March 2021, LGT Capital Partners joined NZAM initiative and made a commitment to reaching net zero GHG emissions by 2050 or sooner across all assets under management. In doing so, we also pledged to provide transparency and rigorous accountability. As part of this commitment, we disclosed the following information:

- Proportion of assets to be managed in line with net zero
- Our methodology for net zero alignment
- Interim targets for emission reductions

We report annually on the progress made against our targets and we submit the results to the respective NZAM network partners for review. This ensures that

our approach is based on a robust methodology, which is consistent with the Race to Zero<sup>1</sup> criteria and is in line with our net zero commitment.

We have set ambitious interim targets for our investments with the aim of achieving a 50% reduction in GHG emissions by 2030 against a baseline year of 2020. The 2020 baseline performance for assets under management (funds and mandates) committed to net zero is 40.4 t CO<sub>2</sub>e/USD million invested. For 2030, our aim is to reduce our baseline emissions by 50%, with annual interim targets based on our emission budget.

When determining the carbon budget, LGT Capital Partners uses the Net Zero Emissions by 2050 Scenario (NZE)<sup>2</sup> developed by the International Energy Agency (IEA).

### Net Zero Emissions by 2050 (NZE)<sup>2</sup>

The NZE describes a pathway for the global energy sector to achieve net zero CO<sub>2</sub> emissions by 2050. Alongside reductions in GHG emissions from outside the energy sector, this is consistent with limiting the global temperature rise to 1.5°C above pre-industrial levels without a temperature overshoot (with 50% probability). Under this scenario, global energy-related and industrial process CO<sub>2</sub> emissions would fall by nearly 40% between 2020 and 2030 and reach net zero in 2050.

<sup>1</sup> Race To Zero is a global campaign to rally leadership and support from businesses, cities, regions, investors for a healthy, resilient, zero carbon recovery. The initiative has defined clear minimum criteria that are required for participation in the campaign.

<sup>2</sup> International Energy Agency, Net Zero by 2050, A Roadmap for the Global Energy Sector – [www.iea.org/reports/net-zero-by-2050](https://www.iea.org/reports/net-zero-by-2050)

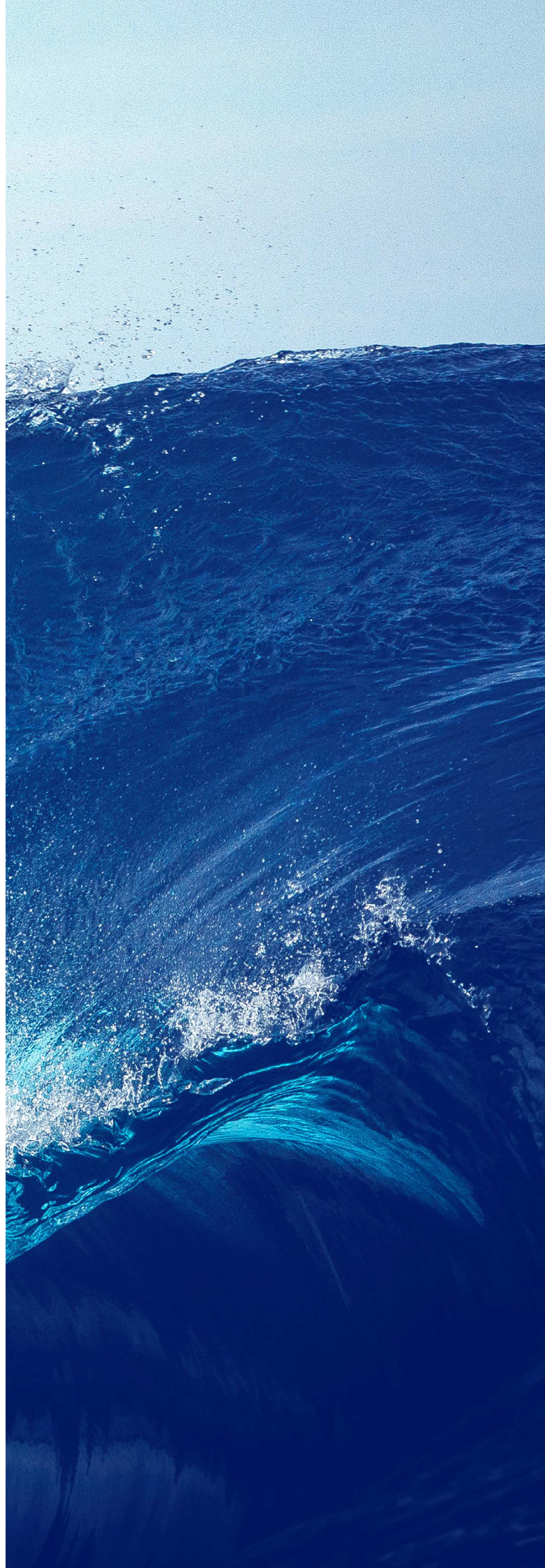
## Emission measurement and coverage

Our framework is based on Scope 1 and Scope 2 GHG emissions. The framework does not yet include Scope 3 emissions, as we believe that data coverage of this category of emissions is not yet adequate and involves numerous double counting issues. Nevertheless, we are working towards the broader gathering and reporting of data on Scope 3 emissions and plan to include it for selected industries in our budgeting framework in future updates.

We define asset classes as being "in scope" where we have a robust GHG measurement framework in place and the ability to effect change through our investment decisions and stewardship activities. Based on this definition, we have included securities from corporate issuers, such as equities and corporate bonds, in our GHG framework. Here, we measure the relevant financed emissions in our direct investment portfolios, externally managed funds and managed accounts. Asset classes such as money market instruments, sovereign debt and insurance-linked strategies are not yet in scope. In these cases, we recognize that methodologies are still at an early stage of development or that data coverage and quality require further improvement.

For private equity and private debt portfolios, where relevant data is more difficult to collect, we measure the carbon footprint of the portfolios using public market comparables as a proxy for actual emissions. Our investment teams engage with private market managers to include GHG considerations throughout the investment process. In addition, we are working to improve the coverage and quality of data from the underlying portfolio companies.

In addition, LGT Capital Partners joined the ESG Data Convergence Initiative (EDCI) in 2021. As a member of the EDCI, we use its standard data template to source data through our managers in order to provide more detailed insights into our private equity portfolios. By using this template, we are also helping to streamline ESG data monitoring and reporting in the private equity industry. In 2023, we contacted 200 managers and received data from over 1,600 underlying portfolio companies, representing around 15% of our entire private equity company universe. In addition, we conducted follow-up calls with managers to discuss the monitoring and reporting of ESG data. During these calls, the team highlighted the importance of monitoring company-level GHG emissions data and developing science-based reduction plans where emissions are material.





## Emissions budget methodologies

We use a combination of two methodologies for the carbon budget calculation, applying:

- 1. Sectoral Decarbonization Approach (SDA)<sup>1</sup>:** this approach is applied to companies with high-emitting and homogeneous business activities.
- 2. Value Added Approach:** this approach is applied to companies with lower-emitting or heterogeneous business activities.

### Sectoral Decarbonization Approach (SDA)

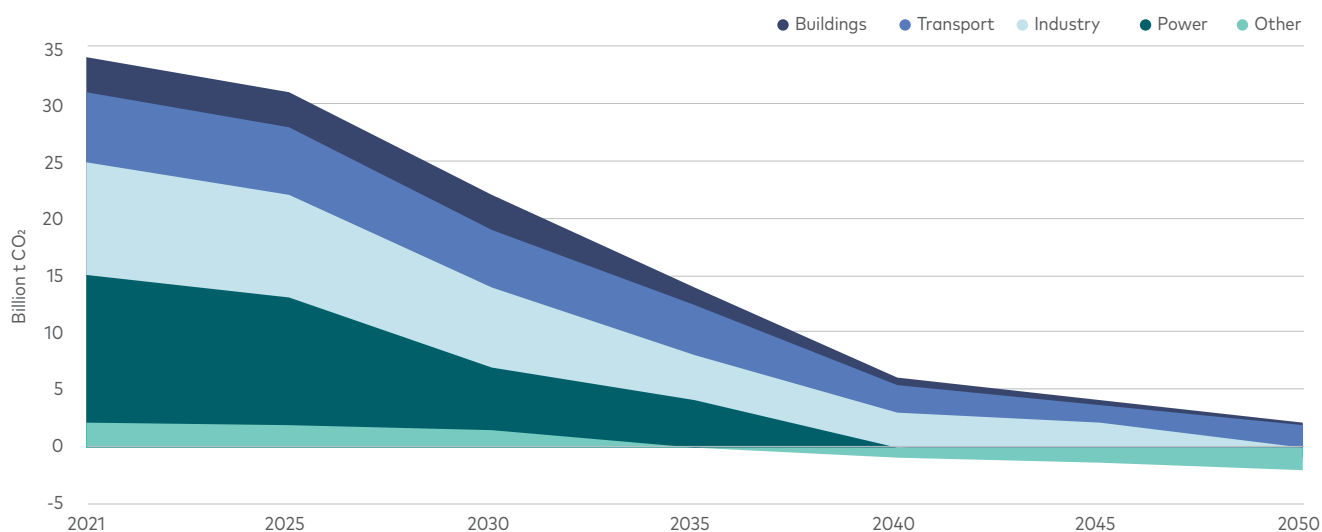
The **SDA** is applied to companies with high-emitting and homogeneous business activities. The IEA industry-specific scenario pathways are used, which measure company alignment using industry-specific emission intensities and physical production levels (e.g. tons of CO<sub>2</sub>/MWh or tons of CO<sub>2</sub>/tons of steel). Industry-specific transition pathways are incorporated to account for faster versus slower progressions dependent on an industry's distinct mitigation potential and cost of mitigation. The

companies are allocated a carbon budget based on their level of economic activity for sector-specific activities, such as the amount of electricity generated. Four main SDA sectors are adopted in our calculations: electricity generation, steel, cement and aviation. These sectors are mapped to the IEA Net Zero 2050 scenario as follows: electricity generation in "Power", steel and cement in "Industry" and aviation in "Transport".

### Value Added Approach

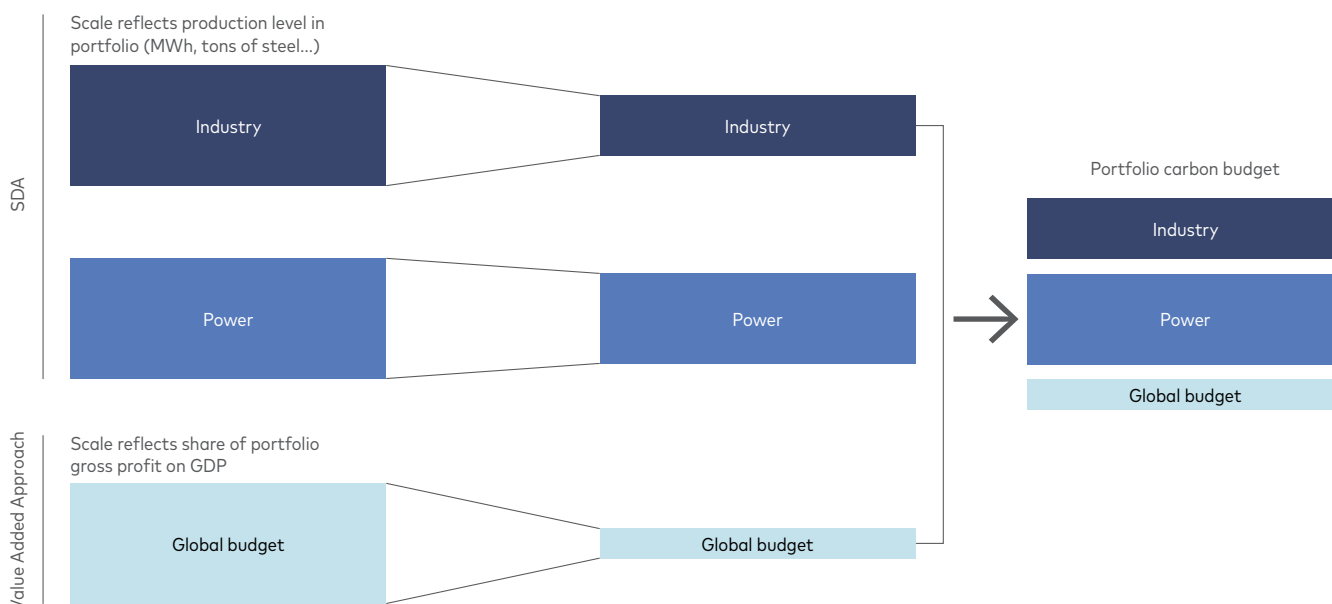
The **Value Added Approach** is applied to companies with lower GHG emissions or heterogeneous business activities. For companies with diverse business activities, the global IEA Net Zero 2050 scenario is used. Each company's emissions pathway is measured as its GHG emissions per unit of gross profit, representing its contribution to total global emissions and global Gross Domestic Product (GDP). While the majority (around 95%) of companies in a typical investable universe fall within the "Value Added" budget type, they account for a significantly smaller proportion of GHG emissions compared to the sectors covered by the SDA.

## Global CO<sub>2</sub> emissions pathways in IEA Net Zero 2050 scenario



<sup>1</sup> "Aligning corporate greenhouse-gas emissions targets with climate goals", Nature Climate Change (2015), by Oskar K., Giel L. and co.  
Source: LGT Capital Partners

## Portfolio carbon budget



Our methodology provides a systematic and consistent framework to support net zero GHG emissions in the real economy. A key advantage is that we can apply the approach across a wide variety of portfolio holdings, which can be consistently aggregated for multi-asset portfolios.

At present, our framework primarily focuses on assessing the company's current emissions in comparison to the trajectory toward net zero alignment. The targets set by the company have not been incorporated into our evaluation due to the diverse nature of these targets. However, we are actively exploring the integration of a forward-looking element into our assessment process, which will involve incorporating the company's targets while also conducting a credibility assessment. In this context, we are guided by the Net Zero Investment Framework (NZIF) provided by the IIGCC.

## Portfolio carbon budgeting

Using the budgeting methodology described above, we are able to derive carbon budgets for portfolios. For the funds and portfolios we manage using our sustainability framework, the respective portfolio-level carbon budgets are set by aggregating the individual carbon budgets of the underlying investee companies. Where data is available, we take into account their allocation to different SDA activities. The current aggregated emissions for these portfolios must be below their respective carbon budgets. For portfolios that are managed by external managers and are part of the LGT Endowment and other multi-asset portfolios, we derive the carbon budgets based on the respective benchmark. At the level of multi-asset portfolios, which includes the LGT Endowment, the overall portfolio carbon budget is derived by aggregating the carbon budgets of the underlying building blocks, where applicable.

# Strategy

## Climate-resilient portfolios

Identifying, understanding and disclosing physical and transition risks in line with TCFD recommendations is essential to assess climate-related impacts on financial performance and to ensure the resilience and sustainability of businesses.

### Physical risks

These risks reflect the negative impact that climate change can have on a company's operations, assets and supply chains through increasingly frequent and severe weather events and long-term shifts in climate patterns. These risks can manifest themselves in a variety of ways:

- **Acute physical risks:** These are short-term risks associated with extreme weather events such as hurricanes, floods, wildfires, storms and heatwaves. These events can directly damage physical assets, disrupt operations and cause supply chain disruptions.
- **Chronic physical risks:** These are long-term risks resulting from gradual changes in climate patterns, such as increasing temperatures, rising sea levels, changes in precipitation patterns and shifts in ecosystem dynamics. Chronic risks can affect the availability and quality of natural resources, the stability of infrastructure, and the health and productivity of ecosystems, thus affecting business operations and supply chains over time.

### Transition risks

Transition risks arise from the process of moving to a low-carbon economy as a result of climate change mitigation efforts, regulations, technological advances and changes in consumer preferences. These risks can affect companies across different sectors and industries as they adapt to the transition to a more sustainable and low-carbon future. Transition risks include:

- **Policy and legal risks:** these are risks related to changes in regulations, laws and policies affecting carbon emissions, energy use and environmental protection.
- **Technology risks:** these are risks associated with the emergence of new technologies or with existing technologies becoming obsolete due to climate-related changes.
- **Market risks:** these are risks stemming from changes in market dynamics, consumer preferences and investor behavior influenced by climate-related factors.
- **Reputation risks:** these are risks arising from negative perceptions or reputational damage due to a failure to adapt to or participate in the transition to a low-carbon economy.

In short: physical risks relate to the direct impacts of climate change on a company's operations and assets, while transition risks relate to the challenges and opportunities associated with the transition to a low-carbon economy as a result of climate change mitigation efforts and evolving market dynamics. Understanding and disclosing these risks is essential for us to effectively manage climate-related risks and opportunities and to ensure the long-term sustainability and resilience of our business and our investment portfolios.

### TCFD framework for physical and transition risks

Physical risks		Transition risks			
Acute	Chronic	Policy and legal	Technology	Market	Reputation
<ul style="list-style-type: none"> <li>• Hurricanes, floods, wildfires</li> <li>• Storms and heatwaves</li> </ul>	<ul style="list-style-type: none"> <li>• Rising temperatures</li> <li>• Rising sea levels and changes in precipitation</li> </ul>	<ul style="list-style-type: none"> <li>• Government policies and regulations</li> <li>• Increased pricing of GHG</li> </ul>	<ul style="list-style-type: none"> <li>• Substitution of existing products</li> <li>• Costs to transition to lower emission technologies</li> </ul>	<ul style="list-style-type: none"> <li>• Changing client behaviour</li> <li>• Increased costs of raw materials</li> </ul>	<ul style="list-style-type: none"> <li>• Stigmatization of sector</li> <li>• Increased stakeholder concerns</li> </ul>



## Scenario framework

In addition to decarbonizing our portfolios, we also aim to make them more climate resilient. Based on our long experience in scenario analysis and modeling, when formulating asset allocations, we focus our analysis on the financial implications for the various asset classes. It is widely recognized that strategic asset allocation has the biggest impact on long-term investment performance, so it is crucial to also integrate ESG and climate considerations at this top level of investment decision-making. We believe that the implications for the market will depend on whether the transition to a low-carbon economy is based on governmental incentives or mandatory requirements imposed using penalties and sanctions.

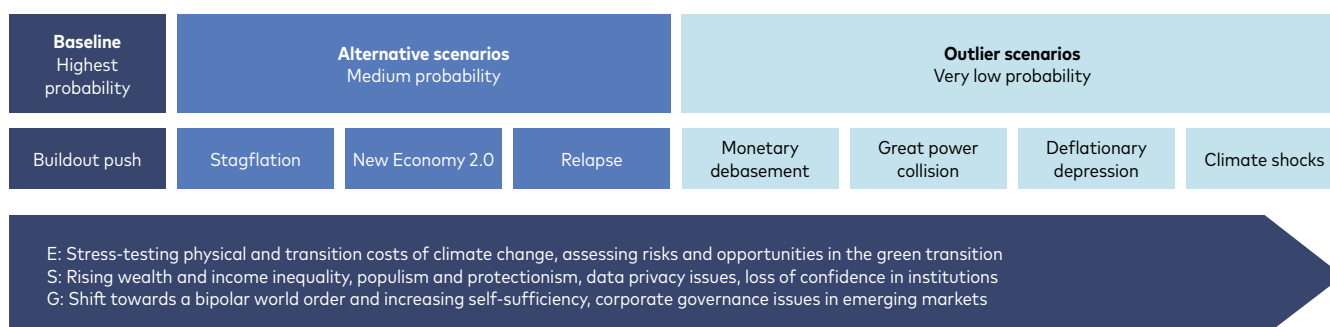
If the transition is driven by incentives, governments need to support the cost of transition through subsidies and other forms of fiscal stimulus. In the case of mandatory requirements, private businesses will bear the bulk of the transition costs, which are typically associated with stricter environmental standards and more stringent carbon pricing schemes.

As a first step in our scenario analysis, we regularly assess the macroeconomic implications of the above approaches. As part of this assessment, we have considered TCFD recommendations and will continue to further align our framework with them. In a second step, we model the impact of climate change on the relevant asset classes and integrate the results into our scenario framework used for asset allocation. The chart below illustrates how we integrate ESG and climate-related factors into our scenarios.

For example, a baseline scenario with a boom in global infrastructure investment and strong productivity growth could be stimulated by incentives and the development of new technologies. As a result, we would need to slightly revise our return expectations upward for growth-oriented investments (e.g. equities) for the respective scenario. However, we have also formulated an outlier scenario with an accumulation of severe weather events and late but sudden and drastic sanctions from policymakers. This stress-tested scenario helps us to gauge the potential negative impacts of unabated global warming on our investments and allows for more realistic sentiment shocks and the sudden repricing of financial assets. With regard to physical risk, we see its direct impact on policy actions and asset classes increasing within our scenario horizon, but mainly with implications at the regional and local level. On the other hand, we consider transition risk to be more prevalent across our portfolios, particularly in the case of exposure to carbon-intensive businesses. We have therefore concluded that decarbonizing our portfolios over time is the most effective way of increasing climate resilience and mitigating the risks of holding stranded assets<sup>1</sup>.

### LGT scenario planning process

Forward-looking scenarios



<sup>1</sup>"Investments which have already been made but which, at some time prior to the end of their economic life (as assumed at the investment decision point), are no longer able to earn an economic return as a result of changes in the market and regulatory environment brought about by climate policy" (IEA)





## Climate stress-scenario analysis

Our dedicated climate stress-scenario analysis serves as a concise yet comprehensive examination of the multifaceted impacts of climate change. It explores the dual dimensions of immediate physical costs incurred from extreme weather events and the longer-term transition costs associated with reactive policy responses geared towards mitigating climate change.

In this scenario, the physical costs of extreme weather events that damage the capital stock, such as real estate and infrastructure, destroy crop harvests, and disrupt supply chains etc. add up. Policymakers then react swiftly to the urgency of the situation and impose strict measures to drive the transition to a low-carbon economy. These measures initially result in market disruptions and asset repricing. In parallel, however, they stimulate innovation and investment in climate solutions. Consequently, assets that are aligned with sustainability and decarbonization are expected to thrive, whereas carbon-intensive industries will face mounting pressures.

In the first phase of this scenario characterized by severe physical damage, real assets (property and infrastructure) and insurance-linked investments (especially those tied to natural catastrophes) are the most negatively affected asset classes. In the second scenario phase, which is strongly characterized by transition costs that impede growth, equities suffer the most, particularly in carbon-intensive industries. The general uncertainty and negative sentiment also lead to volatility and contractions in financial markets. Emerging markets assets are likely to be more negatively affected than developed markets due to the higher carbon-intensity of their industry mix and a higher vulnerability to adverse weather outcomes. On the fixed income side, inflation-linked bonds are expected to outperform nominal bonds due to rising inflation expectations.

Potential winners in this scenario are technology and volume leaders in renewables and companies with a strong product and service offering focusing on climate solutions. In terms of effective risk management, an early and stringent decarbonization of investment holdings seems to be the best path to improve portfolio resilience and aid efforts to avert devastating climate change.



## Investment opportunities in climate solutions

In addition to carefully assessing the risks of climate change for our investments, we invest time and resources in identifying climate solutions. We do this with the aim of generating attractive returns while supporting the development of new technologies for the decarbonization of the real economy.

To achieve the target of net zero emissions by 2050, significant capital is required from various sources, including primary and secondary public and private markets. Effective decarbonization requires a broader transformation of systems, including energy and food

production, as well as the urban infrastructure. These changes are dependent on innovative technologies and the creation of new business value chains, which present various investment opportunities. Examples of low-carbon technologies include efficient building insulation, carbon capture and storage facilities, light electric vehicles and charging infrastructure, renewable energy infrastructure and low-carbon food technologies. Emission reductions within the corporate value chain are considered "transition activities", while reductions beyond the value chain (through product impact) are classified as "enabling activities". Below are two examples of investments in such enabling activities that we hold in the LGT Endowment .



### Summit Carbon Solutions

Summit Carbon Solutions is developing the world's largest carbon capture and storage project. The project will capture and store up to 18 million tons of CO<sub>2</sub> per year from dozens of ethanol and other industrial production facilities across the US Midwest. This is equivalent to removing the GHG emitted by 3.9 million vehicles from US roads every year. The captured gas will be transported to North Dakota through a pipeline infrastructure and safely and permanently stored underground. The pipelines are constructed using efficient methods: topsoil is carefully separated and preserved, and landowners are consulted in order to reroute portions of the line where necessary to accommodate their future construction plans. The company is designing this project to minimize its impacts on all natural and cultural resources. Summit Carbon Solutions is a portfolio company of TPG Rise and is included in the LGT Endowment.



### Envevo

Envevo is a fast-growing UK-based business that designs and installs electric vehicle (EV) charging points. The company covers the full project lifecycle, from conception and design to construction and project management, providing turnkey engineering solutions to operators of forecourts and motorway services, private settings such as hotels and car parks, and other clients, including fleet depots. Envevo is dedicated to going green, and this commitment extends beyond its installation services. The company has received accreditations from the UK Office for Zero Emission Vehicles and the UK Office for Low Emissions Vehicles to ensure that its own operations are environmentally friendly, and not just the services it provides. Envevo is committed to achieving net zero and its employees are constantly reviewing their environmental impact to further reduce it. We believe that it is an excellent example of a company that can combine transition and enabling activities, thus intensifying its decarbonization efforts. Envevo is a portfolio company of TowerBrook and is included in the LGT Endowment.



# Strategy

## Own operations

As part of our ambition to constantly reduce our operational footprint, we will continue to measure and monitor the environmental impacts of our own operations. We will consider multiple metrics, such as water and energy consumption and waste production. The reduction of our operational carbon emissions is of key importance in this context. We are also raising awareness across the firm of the need for employees to actively contribute to our efforts to reduce our carbon footprint by making it part of our annual employee appraisal process.

Topics related to CSR are managed by the COO Office and the CSR sub-committee. We have a CSR framework in place that groups all the topics in four pillars: people, community, suppliers and buildings. Climate is a large part of the people and buildings pillar. For example, for the people pillar we introduced a new mobility concept where public transportation is incentivized for certain locations.

Buildings is another focus area. Sustainability and energy efficiency are considered when selecting office locations. As a result, we are better prepared for climate change and less affected by possible energy price hikes. Our remote working policy and our investments in technology allow us to respond quickly to a potential climate crisis with a tested business continuity process. Our goal of reaching net zero by 2050 or sooner and our commitments in this area help to make our firm more climate resilient. By expanding data coverage and

gathering more data on travel and other relevant GHG emissions, we will be able to evaluate our climate risks on a more informed basis and to identify and react to changes more swiftly and effectively. As a result of our growth, we now have a larger number of staff based in more offices around the globe. We therefore believe it is important to have a clearly defined data set and assessment metrics that we can easily apply to new office locations and entities going forward.

We have been committed to responsible environmental and operational management for years and have already reached some important milestones. Since 2022, for example, 100% of the electricity used at our Swiss headquarters has originated from renewable sources, mainly hydropower. At the same time most offices use a hybrid power mix. Since 2010, we have purchased carbon certificates equal to 100% of our operational emissions and will continue to do so on an annual basis. We also regularly assess carbon markets to ensure the quality and integrity of the certificates we purchase.

LGT Capital Partners aims to address climate risks through operational enhancements and by following international standards, using environmental management systems, lowering energy use in our properties and using more green energy. In addition, our suppliers are expected to follow the Supplier Code of Conduct, which sets out the actions they should take on climate issues, among other things.

### Swiss Climate Foundation

As a member of the Swiss Climate Foundation, LGT Capital Partners has elected to donate its federal CO<sub>2</sub> levy to the organization, which supports small and medium-sized companies that develop innovative climate-related projects with a significant impact in the area of climate protection. We contribute to the Foundation's activities, among other things by assisting in the selection of projects to receive funding from the Swiss Climate Foundation.

The Foundation is a voluntary initiative by business for business. Through corporate partnerships, it can award between CHF 1 million and CHF 3 million of funding each year. Its purpose is to promote climate protection and strengthen Switzerland and Liechtenstein as business locations. Currently, 31 Liechtenstein and Swiss companies from the financial, insurance and service sectors are partners to the Swiss Climate Foundation.



## ESG training

ESG training, including on climate action, plays a pivotal role in enhancing awareness, understanding and competencies related to sustainable and responsible business practices. We believe that training is crucial to embed sustainability into our culture and when managing risks, meeting regulatory requirements and maintaining stakeholder trust. We are convinced that by educating our staff, we can empower employees at all levels of the firm to contribute to our ESG goals, fostering a more sustainable and responsible business approach.

We have long experience in providing targeted ESG training for specific teams. In recent years, we also identified a need for a broader training program around ESG and climate action. In 2021, we therefore launched the ESG education program to offer ESG learning sessions for all employees at LGT Capital Partners with a view to enhancing knowledge and understanding of ESG topics among our staff. The ESG training sessions focus on current topics that are relevant for all employees, such as sustainable regulations (e.g. the EU Taxonomy and the SFDR), climate action and ESG implementation in private markets. The training modules, along with further supporting documents, can be accessed by all our employees at any time on our intranet. The high take-up rate of the voluntary training among our staff members demonstrates a clear interest in this topic.

We organize separate ESG training sessions for new team members, including investment professionals, throughout the year. Employees can also undertake external training and gain ESG-related qualifications, such as the CFA Institute's Certificate in ESG Investing or the CFA Institute's Certificate in Climate Change, which has generated significant interest among our employees.

Climate-related training held during 2023 included an expert-led knowledge session on the topic of nuclear fusion. The session focused on current developments in the space and future potential applications.

## Procurement

LGT Capital Partners also expects its suppliers to operate sustainably. Whenever possible, we aim to purchase sustainably produced goods and services. As part of these efforts, we have implemented a Supplier Code of Conduct, which is an integral part of every supplier contract. We monitor their compliance with these principles. If we detect any violations, our initial step would be to engage with the suppliers. If the issue cannot be resolved, we may opt to end the supplier relationship. The Supplier Code of Conduct strengthens compliance along the entire value chain. For key suppliers, we aim to additionally send out an ESG questionnaire to gather information about their ESG policies.



In 2023, we partnered with the PRI Academy, a global leader in ESG education, to launch a mandatory "Understanding ESG" training program

for all employees that is designed to help them keep abreast of the latest developments in the ESG space. Over 800 employees completed the training program. The course covers topics such as the materiality of ESG issues and presents a systematic approach to incorporating ESG factors into investment decisions and active ownership. The environmental component of the training addresses topics such as ecosystems and environmental issues, externalities and their impacts. Several case studies are included to enhance the learning experience.

# Risk management

## Investment integration

### Identification, assessment and management of climate-related risks

At LGT Capital Partners, we believe that a rigorous approach to risk management is essential to deliver high-quality asset management services. We therefore apply a three lines of defense model to ensure effective risk oversight in client portfolios:

- **First line of defense:** this comprises the business functions and line managers across the firm, who are the main risk owners. Portfolio managers and research analysts consider ESG risks as well as other relevant economic factors when evaluating potential investments. Moreover, LGT Capital Partners has developed a framework to track exposures to carbon-intensive assets, helping us to understand and manage potential climate-related risks. As an example, for our direct liquid market portfolios, the portfolio manager verifies each day that the portfolio is invested in accordance with the defined strategy, complies with the prescribed bandwidth limits and is not in violation of any investment restrictions. This check is conducted ex-post and ex-ante. All portfolio managers must comply with the firm's internal investment guidelines, the portfolio management directive and individual client restrictions.
- **Second line of defense:** this comprises the Risk Management and Compliance functions. We consider climate-related risks in the broader context of sustainability risks, which are defined as ESG-related events or conditions that could have a material negative impact on a financial product or service, such as affecting the value of an investment or impacting a company's assets, financial situation, profitability or reputation. By conducting regular reviews with portfolio managers, the independent Risk Management function ensures that relevant risks, including ESG risks, are integrated into investment decisions. The Risk Management function also ensures that investment portfolios comply with any obligations related to climate risk outlined in investment process documents and in the policies shared with investors, and it compiles comprehensive monthly risk reports, which are presented to and reviewed by the Executive Committee. Our team of risk managers collaborates with various working groups across the investment platforms—including the Climate Action Committee and the dedicated ESG Analytics team—to enhance the firm's sustainability toolkit by providing insights on firm-wide data, modeling, methodologies and analytics.
- **Third line of defense:** this comprises the Internal Audit function, which performs an assurance role. Its mandate is to independently evaluate the adequacy and effectiveness of the firm's internal control environment with the aim of enhancing risk management, control and governance processes.

When considering sustainability and climate-related risks, we take into account the following materiality horizons:

Time horizon	Impact materiality horizon
Short term	≤5 years
Medium term	6–10 years
Long term	11–30 years



Risk management is an integral part of our investment process at LGT Capital Partners and sustainability risks represent an important dimension of our holistic risk management philosophy. When integrating sustainability and climate-related risks, we follow two approaches: first, we monitor compliance with restrictions defined by regulators, clients or other external and internal rules and guidelines on an ex-post basis. Second, we support and challenge our investment teams when performing their work by modeling and testing risks in the portfolios and all underlying exposures on an ex-ante basis. Both approaches integrate sustainability and climate-related risks.

### **Pre-investment analysis of managers and testing of portfolios**

Risk Management integrates and analyses a manager's ESG rating in the portfolio before the final decision by the Investment Committee to ensure that only those managers with an appropriate and suitable ESG process are approved for a portfolio; this applies in particular to third-party managers. In the case of portfolios that adopt a more rigorous ESG standard, i.e. products promoting environmental or social characteristics (Article 8) or products with a sustainable objective (Article 9), managers will have to adhere to adequate standards and ensure that portfolios have a sound ESG profile.

### **Post-investment monitoring of ESG restrictions and guidelines**

The Risk Management function employs tools and processes to measure and monitor ESG restrictions in investment portfolios. This includes checking compliance with exclusion lists and ensuring the correct adoption and implementation of rules, guidelines and restrictions to meet certain ESG standards, e.g. SFDR requirements or the criteria set out in the Net Zero Emissions by 2050 Scenario (NZE). Where specific benchmarks or further KPIs and criteria have been agreed, Risk Management also ensures adherence to those standards. In the case of third-party managers, Risk Management will review and test the managers' ratings that result from annual ESG monitoring and perform the bottom-up rating of portfolios where possible based on the information available.

## **Monitoring of climate risks**

Risk Management and the Quantitative Research team continuously monitor the robustness of LGT Capital Partners' key multi-asset portfolios and analyze the impacts of various risk factors in stress scenarios. A specific risk scenario has been developed to model—and thus gain a better understanding of—the effects of climate change on the various asset classes, providing a better basis for asset allocation decisions.

At LGT Capital Partners, we invest in a variety of asset classes that include, but are not limited to, equities, fixed income, private equity, hedge funds and insurance-linked strategies. We therefore need to adapt our general approach to sustainability and climate-related risks according to the specifications and requirements of each asset class. We implement our investments through a direct investment approach or in partnership with selected third-party managers/General Partners. This results in differing levels of transparency and access to the underlying exposures, meaning that different methods are needed to implement our sustainability criteria.

### **LGT ESG Cockpit—monitoring adherence to ESG criteria**

For direct investments, or wherever sufficient information is available, LGT Capital Partners uses its proprietary analysis tool, the LGT ESG Cockpit, to evaluate various climate-related metrics for our portfolios. The LGT ESG Cockpit is the engine that drives our sustainability process, and it includes ESG metrics, SDG alignment and climate data. The tool was developed internally and has been continuously enhanced over the past decade. It draws on data from a variety of well-established information providers, including Refinitiv, MSCI, ISS ESG, RepRisk and InRate.

The measures we use to monitor our direct liquid sustainable markets portfolios include a pre-trade check to ensure the sustainability compliance of any new investments; this ensures that investments in an excluded company are avoided. In addition, a daily sustainability compliance check is carried out on the portfolio. The portfolio manager is notified of the names of any companies that fall below the 35th percentile so that he/she can monitor the exposure and the changes to the ESG rating of the company. If a company falls below the 25th percentile, it is excluded from an ESG perspective and has to be sold.

## RepRisk–risk assessment across asset classes

RepRisk is a data provider that we use to systematically identify and assess material ESG risks, including climate-related risks. The system builds on an outside-in perspective, analyzing information from public sources and stakeholders and intentionally excluding any company self-disclosures. RepRisk screens over 100,000 public sources and stakeholders in 23 languages to systematically identify any company or project associated with an ESG risk incident. This provides a valuable insight into how companies conduct their business around the world. This perspective, together with our controversy rule-based methodology based on daily updates, gives LGT Capital Partners an additional risk assessment layer, both when investing and when monitoring public or private companies.

## Private markets

Private markets play an important role in climate-related investments, as a substantial portion of climate solutions and emissions is held in private ownership. LGT Capital Partners focuses on different private markets segments: private equity, private credit, private debt, real estate and infrastructure. Each segment requires distinct analysis approaches and considerations related to climate change.

## Private equity–manager rating process

At LGT Capital Partners, we assess a manager's approach to climate risk before investing. Post-investment, we rely on our annual ESG private equity manager rating process to reassess the approach. We include climate action in our ESG due diligence process, taking account of areas such as:

- Policy inclusion: we consider whether the manager has a policy to address climate change and how comprehensive it is.
- Risk assessment: we evaluate the private equity manager's processes to identify and manage material ESG risks and opportunities during the due diligence process, including those related to climate change.
- Monitoring: we assess the manager's process to monitor how effectively portfolio companies are managing ESG factors, including GHG emissions, strategies for reducing the carbon footprint of portfolio companies, and climate-related targets.
- Reporting on climate change to investors: for investors that require reporting based on climate change metrics, we are able to measure the carbon footprint of portfolios using reported data from underlying portfolio companies as well as proxies.

For direct private equity investments, we assess the carbon footprint of individual companies during the ESG screening process, using public market comparables as the proxy where no reported data is available. Such analysis provides useful insights into the types of environmental risks the company may be exposed to. As a member of the ESG Data Convergence Initiative (EDCI), we also use the respective standard data template to source various ESG metrics from our underlying portfolio companies. This enables us to provide more detailed insights into our private market portfolios, including their GHG emissions.

## Private debt – integration of physical and transition risks

In the area of private debt, we conduct a systematic evaluation of climate-related risks and their significance for businesses in the pre-investment phase, with periodic reviews conducted at least annually while the business remains in our portfolio. We employ a framework aligned with TCFD recommendations. This framework facilitates the assessment of a company's climate resilience to physical risks (related to climate change itself) and transition risks (related to the transition to a low-carbon economy).

Based on this analysis, we rate the materiality of such risks. This allows for an informed asset selection process and for the ongoing monitoring of the portfolio's composition in light of identified climate-related risks.

Additionally, we assess the carbon footprint of the investment opportunity under review using public market sub-industry averages as a proxy for the company's actual footprint when specific company data is unavailable.

In the post-investment phase, LGT Private Debt employs an aggregated approach to monitor the portfolio's carbon footprint, encompassing both individual company emissions and the CO<sub>2</sub> intensity of the overall portfolio. Exposures are shown both in terms of LGT Private Debt's stake in the company and the company's total emissions. The portfolio metrics utilize actual company-reported emissions where available and industry proxies where such data is lacking. The following table provides a sample of the information available for investors.

### Portfolio's carbon footprint

	LGT Private Debt "owned"	Total company emissions (tCO <sub>2</sub> e)
Company emissions	<b>22,276</b> metric tons CO <sub>2</sub> p.a. <sup>1</sup>	<b>54,080</b> metric tons CO <sub>2</sub> p.a. <sup>2</sup>
	LGT Private Debt	MSCI Europe
Portfolio CO <sub>2</sub> intensity Emissions per million EUR invested	<b>9.4 tCO<sub>2</sub>e</b>	<b>77.1 tCO<sub>2</sub>e</b>
Portfolio CO <sub>2</sub> intensity Emissions per million EUR revenues	<b>13.2 tCO<sub>2</sub>e</b>	<b>100.7 tCO<sub>2</sub>e</b>
Share of bottom-up CO <sub>2</sub> emissions assessments <sup>3</sup>	<b>83%</b> by number of companies	<b>95%</b> as % of tCO <sub>2</sub> e

<sup>1</sup> Based on share of capital invested by LGT Private Debt in relation to total enterprise value as of 31.12.2023

<sup>2</sup> Based on mix of top-down (industry proxies) and bottom-up (company level assessments) Scope 1 and 2 CO<sub>2</sub> footprint assessments

<sup>3</sup> Share of portfolio for which CO<sub>2</sub> footprint results from bottom-up (company level assessment) approach only

Source: LGT Capital Partners based on 40 portfolio companies (as of 31 December 2023)



## Managing risk in private debt

In our assessment of climate resilience within private debt, we focus on the evaluation of physical risks that may affect operations and supply chains. For instance, we consider scenarios where a company relies heavily on a single centralized facility or a complex single-stream supply chain. In such cases, the LGT Private Debt team conducts a detailed review of the company's exposure to climate-related events and assesses its back-up and recovery processes. Each issue identified receives a materiality score ranging from 0 to 2, where 0 indicates no anticipated risk, 1 signals a possible risk with moderate materiality, and 2 flags high risks with high materiality. These scores are aggregated to provide an overall assessment of physical risk (see below).

Transition risks relate to broader changes in the business environment resulting from the transition to a low-carbon economy. Factors such as regulatory developments, evolving stakeholder expectations and shifting end-user preferences increasingly influence the materiality of these considerations.

As part of our ongoing monitoring and reporting process, our investment teams conduct annual reassessments of each investee company once they have completed the annual ESG survey that we distribute to all portfolio companies. If necessary, the analysis is updated to include revisions to our scoring, allowing us to evaluate both individual profiles and performance across the portfolio. If any issues are identified, we engage promptly with the management team and/or the majority shareholder of the investee company.

### Climate resilience analysis (example)

Physical risks assessment framework		
Item	Potential impact examples	Materiality score <sup>1</sup>
1. Operations	Facility integrity and production capacity, single location implications	1
2. Supply chain	Raw materials volatility and availability, transportation, access to energy	2
3. Workforce	Health, safety and absenteeism, availability of qualified staff in case of relocation	0
4. End-user environment	End-user behavior changes or reallocation of spending, impacts on distribution	0
5. GHG emissions location implications	Direct emissions, energy consumed, induced emissions	1
<b>Total</b>		<b>4</b>

Includes considerations relating to operations and supply chain

Scrutinizing a company's exposure to climate change-related events as well as back-up and recovery processes

Transition risks assessment framework		
Item	Potential impact examples	Materiality score <sup>1</sup>
1. Technology	Substitution to new tech offerings	0
2. End-market	Shifting end-user preferences	1
3. Supply chain	Political responses, transportation changes	1
4. Regulatory	GHG emissions pricing & compliance	1
5. Reputation	Negative stakeholder perception	0
<b>Total</b>		<b>3</b>

Indirect changes in the business environment due to the transition to a low-carbon economy

Recently rejected an investment in an industrial company relying on lax local regulations not assumed to be sustainable

<sup>1</sup> Scoring methodology: 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. Scoring scope : the scoring considered here is an example based on a company within the "Distribution" industry

# Risk management

## Active ownership

At LGT Capital Partners, engagement is an integral part of our ESG framework. It can take different forms, depending on whether an investment involves direct security selection or external managers.

### Direct investments in liquid markets

Active ownership is part of our holistic investment framework for direct investments in liquid markets. Our engagement work in this area is divided into five activities:

1. Proactive engagements: these activities have an objective-oriented focus, i.e. we seek to drive positive change and to achieve outcomes that are measurable and traceable. Research-related engagements represent an opportunity for us to gain further insights into companies' ESG practices and aspirations and to identify any gaps.
2. Reactive engagements to controversies: these activities can be conducted effectively through the systematic monitoring of news flow on investee companies by RepRisk (it screens over 100,000 publication channels in 23 languages worldwide).
3. Investor collaboration: these activities are pursued if we believe there is a higher probability of achieving a positive result through collective efforts.
4. Exercising of voting rights: these activities are conducted in line with our sustainable investment objectives and principles governing our equity investments.
5. Promotion of green and social financing: these measures focusing on the private as well as the public sector are an important part of our engagement efforts in the area of fixed income.

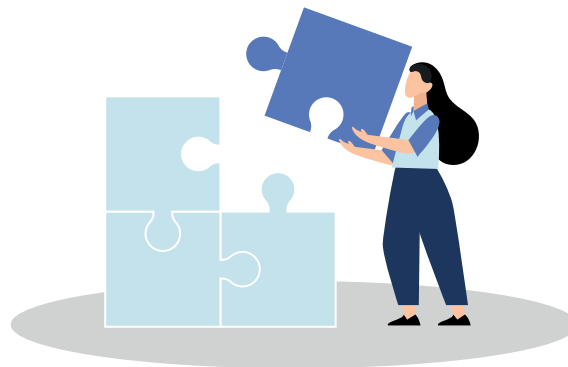
### Holistic approach: active ownership—one pillar of our ESG activities

#### Exclusions

- Activity based: Exclusion of certain harmful sectors
- Conduct based: Exclusion of UN Global Compact violators
- Worst-in-class (exclusion of 4th quartile)

#### Integrating ESG factors

- Quantitative and qualitative assessment
- Combining business operations and product/service impacts
- Integration of controversies and negative news flow



#### Active ownership

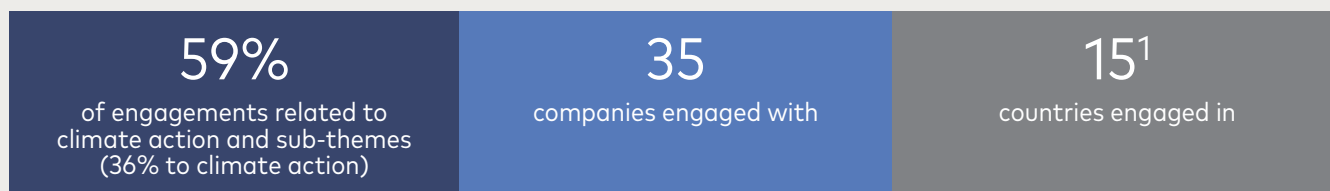
- Proactive dialogue with companies
- Reactive engagement
- Collaborative initiatives
- Proxy voting
- Green and social financing

#### Measuring and impact

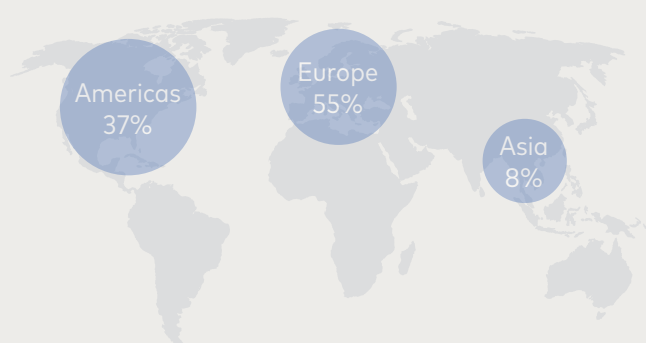
- Environmental footprint
- ESG scores
- CO<sub>2</sub> attribution
- SDG measurements
- Net zero commitment
- Benchmark comparison

## Overview engagements on climate action and sub-themes in 2023

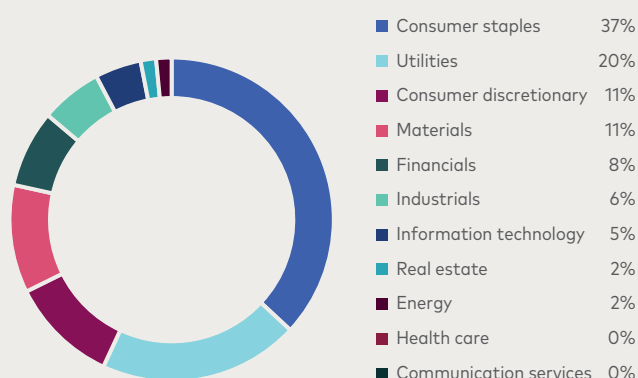
In line with our thematic focus, E-related engagements represented the majority of our engagements in 2023. More specifically, climate action represented the most common engagement topic, followed by the other E topics: water risks, biodiversity and circular economy.



### Geographical split

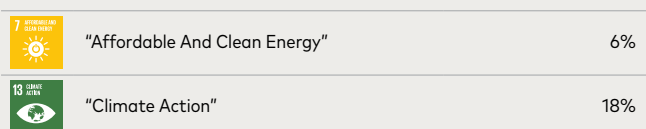


### Sector



### Sustainable Development Goals (SDG) split

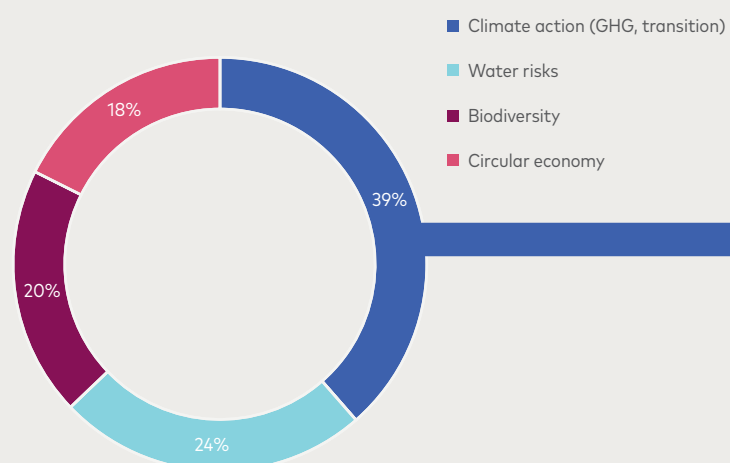
24% of engagements were linked to SDG 7 or SDG 13



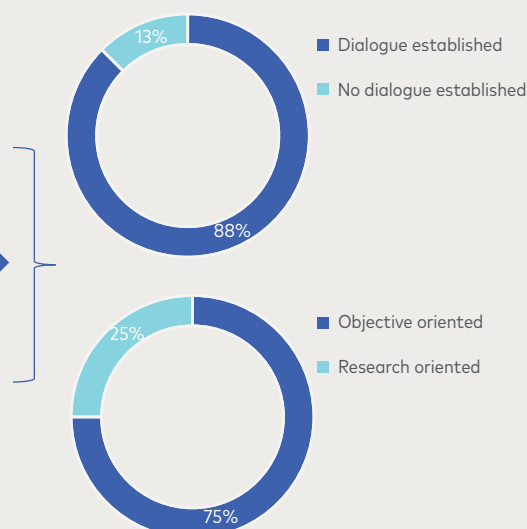
### Top-five engagement topics in 2023—all related to climate

Climate action (GHG, transition)	21%
Water risks	13%
Biodiversity	10%
Circular economy	8%
Green and social financing	8%

### Climate action and sub-themes breakdown



### Climate action breakdown



<sup>1</sup> Data based on location of company headquarters.

Source: LGT Capital Partners. Data from 1 January 2023 to 31 December 2023.



For the purposes of this report, we will focus on the areas most relevant to our climate-related active ownership efforts.

For further details, please see our latest annual Active Ownership Report [here](#) and our Active Ownership Policy [here](#). We also aim to provide transparency on our voting activities and we publish an annual report as well as monthly reports with our voting instructions and rationale for all voting items. A complete list of all proxy voting in 2023 is available on our website [here](#).

## Engagement theme 2020–2025: Climate action

LGT Capital Partners has designated climate action as a thematic engagement priority for a five-year period. This engagement priority is based on the three sub-pillars:

- Net zero by 2050 or sooner
- Circular economy
- Responsible value chain

For the sub-pillar “Net zero by 2050 or sooner”, our targeted engagement actions include:

- Ambition to be net zero aligned to support the goal of limiting global warming to 1.5°C above pre-industrial levels
- Science Based Targets for the short, medium and long term
- Definition of credible transition plans e.g. improvement in energy efficiency, increase in share of renewable energy, decarbonization of value chain and further sector-specific actions, e.g. introduction of low-emission technologies and zero-emission vehicles
- Transparency on reporting across the value chain, including progress

We have additionally defined the following objective for our investee companies: reduce GHG emissions in a responsible, trackable and transparent manner to achieve net zero by 2050 or sooner.

## Engagement selection process

We have introduced a top-down approach to data analysis based on four working streams: reactive, ongoing engagements, proxy voting and thematic priorities. For each area, our aim is to shortlist relevant companies based on certain criteria. This includes companies with flagged controversies and a higher risk of norm violations, ongoing engagements where we seek high-quality impact, companies where we voted against management on any environmental and social resolutions (for our equity investments), and finally, companies targeted for our thematic engagement priority on climate action. Where companies are shortlisted for the latter, this is based on poor performance on ESG metrics, including the Principle Adverse Impact (PAI) indicators, which is relevant for the sub-pillars “Net zero alignment 2050 or sooner”, “Circular economy” and “Responsible value chain”. The ESG metrics and PAIs considered for the “Net zero alignment” sub-pillar include: GHG emissions intensity (Scope 1, Scope 2 and Scope 3 relative to industry peers), Science Based Targets initiative (SBTi) targets and share of renewable energy.

We track, assess and review the effectiveness of our active ownership activities. Through our proprietary engagement tool, the LGT ESG Cockpit, we log each engagement with the relevant company details, ESG category and topics, SDG alignment, the type of engagement, activities, response quality, milestones and any escalation steps taken (including proxy voting). Regarding the environmental pillar, we track the following ESG topics: biodiversity, circular economy, climate action (relating to GHG emissions and transition), water risks and green financing.

## Investor collaboration

Since 2022, LGT Capital Partners has made increasing efforts to join collaborative engagement initiatives. In relation to climate, we had three ongoing collaborative engagements in 2023. In 2022, we joined a collaborative initiative launched by Climate Action 100+ with the aim of ensuring the world's largest corporate greenhouse gas emitters take the necessary action on climate change. We collaborate on the engagement for Paccar with a focus on fleet electrification and climate policy engagement. Furthermore, in 2023, LGT Capital Partners joined NZEI, which was launched by the IIGCC, with a focus on credible corporate net zero transitions plans. We are taking a lead engagement role with Geberit and Knorr-Bremse.

## Proxy voting

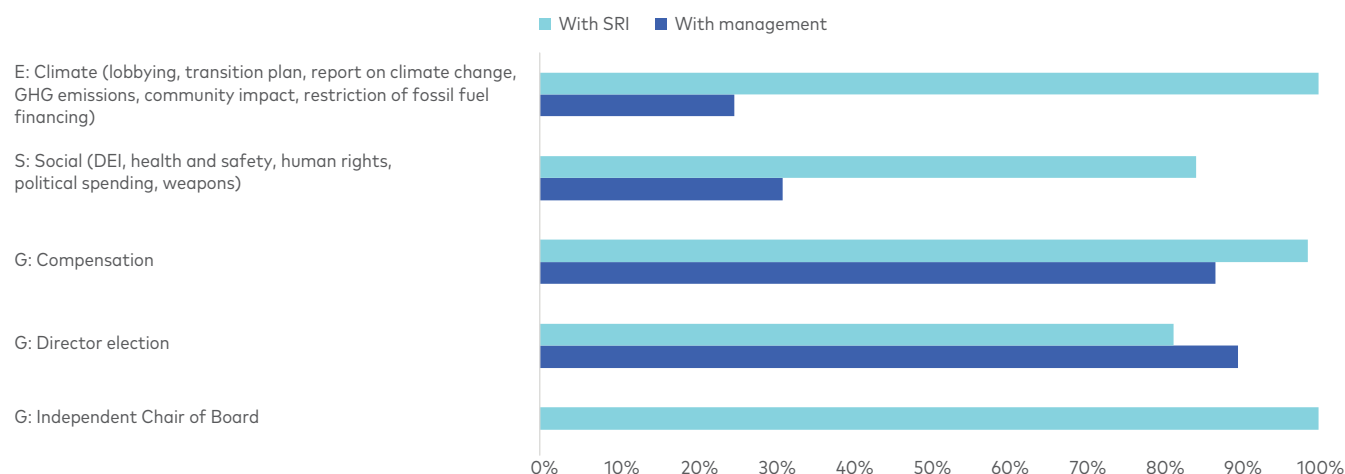
Exercising our voting rights in line with our sustainable investment objectives and principles is a key aspect of our active ownership efforts. More specifically, with regard to climate action, LGT Capital Partner uses voting rights to support companies in taking strategic steps to accelerate or adapt to a low-carbon business model. Hence, we generally vote in a way that aims to ensure stronger alignment between the company's net zero trajectory and its policies, reporting, actions, risk management and oversight. This may mean that we support voting items in areas such as the disclosure of climate-related metrics, targets and climate lobbying activities. In addition, the inability of a company to adequately address climate action could lead to a decision to vote against the board member(s) responsible for climate risk oversight. As shown in the chart below, we voted against management in several instances related to E topics.

LGT Capital Partners closely follows the Socially Responsible Investment (SRI) Proxy Voting Guidelines provided by Institutional Shareholder Services Inc. (ISS) but we may deviate from the Guidelines if we arrive at a different assessment. The SRI policy is a leading example of voting guidelines aimed at mitigating the systematic risk of climate change.

## Fostering green financing

Use-of-proceed bonds, i.e. green, social and sustainable bonds that fund projects with dedicated environmental and/or social benefits, have a significant role to play in driving the urgently needed climate and social transition. According to the World Economic Forum, USD 4–5 trillion will be required annually by 2030 to finance global clean energy solutions. While the use-of-proceeds bond issuance market is growing rapidly, flows still appear to be far below the level required to achieve the target of net zero by 2050. The issuance of use-of-proceed bonds peaked in 2021 at USD 1.054 billion but has since fallen to USD 679 billion in 2023. Our engagement efforts, particularly in fixed income, are therefore targeted at highlighting the role of the private and public sector in providing green and social financing.

### Votes on selected topics in relation to management and SRI policy recommendations for our direct equity portfolios



# Risk management

## Engagement and proxy voting examples



### Collaborative engagement with Geberit and Knorr-Bremse – part of NZEI

As part of NZEI, LGT Capital Partners acts as lead investor for engagements with Geberit and Knorr-Bremse.

**Objective:** Develop a net zero transition plan

**Engagement:** In the initial phase, NZEI investors requested information regarding climate-related financial risks and transition planning. Both companies responded and we identified some gaps and asked for details on how they intend to strengthen their transition plans. Geberit provided further information in late 2023 and the matter was addressed at Board level. In the case of Knorr-Bremse, an answer to our follow-up letter is pending.

**Outcome and status:** Geberit emphasized possible alignment with a 1.5° scenario in 2024 for its reduction plan. Noteworthy improvements in Scope 3 going forward, ensuring supplier alignment with emission reduction targets, will be crucial. Knorr-Bremse has a 1.5° commitment for its 2030 climate strategy, with SBTi targets validated in the third quarter of 2023. However, we lack details on its 2050 net zero commitment and specific emission reduction measures.



### Green financing: Algonquin, utility company

**Background:** In the first half of 2023, Algonquin announced that it had concluded a strategic review of its renewables business and intends to pursue the sale of all of its unregulated power businesses. This move would have some negative implications for the company's outstanding green bonds.

**Objective:** Encourage the company to stay on its sustainability path and analyze the impact of the divestment of its renewable energy business on its outstanding green bonds.

**Engagement:** In the first half of 2023, we engaged with Algonquin by e-mail and held a call with its Investor Relations team in the third quarter of 2023 to express our concerns about the treatment of green bonds in the event of renewable asset divestment. Given the change of control clause, we requested a statement on the treatment of green bonds, as their status could be at risk, triggering a divestment. In addition, the LGT ESG Cockpit's issuer-specific ESG assessment indicated that the expected carbon intensity, excluding wind and solar assets, would surpass the threshold that applies to keep the issuer investable, further supporting the potential for divestment if its plans materialize.

**Outcome and status:** Certain questions remain unanswered. The company suggested it would follow up on its green bond treatment when more details on the divestments are public. No commitment to future ESG financing was made, and the company intends to reassess its ESG role. While our dialogue has been helpful, it falls short of addressing issues and objectives related to this engagement case. We plan to continue discussions during 2024 and will consider divesting our exposure if no progress is made in the coming months.



## Climate change lobbying

### *Paccar*

**Proposal text:** Report on climate lobbying

**Proponent:** Shareholder

**LGT Capital Partners vote instructed:** For

**Management recommendation:** Against

**Vote result:** Rejected. For 46.1%, against 51.1%, abstain 2.7%

**Voting rationale:** A major concern is the lack of transparency regarding Paccar's direct and indirect lobbying activities. Paccar is a member of a trade association that has actively sought to impede proposed clean truck regulations. In line with the CA100+ engagement objective, we support the request for the Board of Directors to annually conduct an evaluation and issue a report describing if, and how, Paccar's lobbying activities are aligned with the goal of the Paris Agreement and how it plans to mitigate the risks presented by any misalignment.

## Fossil fuel financing

### *Morgan Stanley*

**Proposal text:** Adopt time-bound policy to phase out underwriting and lending for new fossil fuel development

**Proponent:** Shareholder

**LGT Capital Partners vote instructed:** For

**Management recommendation:** Against

**Vote result:** Rejected. For 4.8%, against 93.8%, abstain 1.4%

**Voting rationale:** We consider that this policy would enhance shareholders' ability to assess the company's management of climate risks in its lending and underwriting activities. Furthermore, shareholders stand to gain from a more robust alignment between the company's articulated objectives, its fossil fuel policy and its actions in terms of corporate responsibility.





## External managers

Engaging with our managers on ESG issues is a strategic priority. We want to increase their awareness of various ESG topics and to emphasize the importance of those topics for LGT Capital Partners as an investor. Our engagement work with external managers is divided into two parts: first, it comprises an annual ESG assessment, including an ESG questionnaire. The second part consists of our ongoing dialogue with managers around ESG aspects. The annual ESG assessment helps us to identify examples of ESG excellence and to flag areas for improvement. The questionnaires that we send to our managers are aligned in terms of the topics and themes covered but feature different questions, depending on the asset class. Based on their responses to the questionnaire, the managers are rated on a scale of 1 to 4 (with 1 representing the highest score). Climate change is one focus area in all our manager questionnaires. For example, we ask managers if they assess and measure climate-related risks and opportunities. The findings from the last three surveys have revealed a positive three-year trend across our private equity managers (see below).

The annual ESG assessment also contains questions around TCFD adaptation and the monitoring of GHG emissions of portfolio companies. Although these efforts are at an early stage, we can observe a positive trend. By asking these questions, we strive to highlight ESG topics and to thus help drive progress.

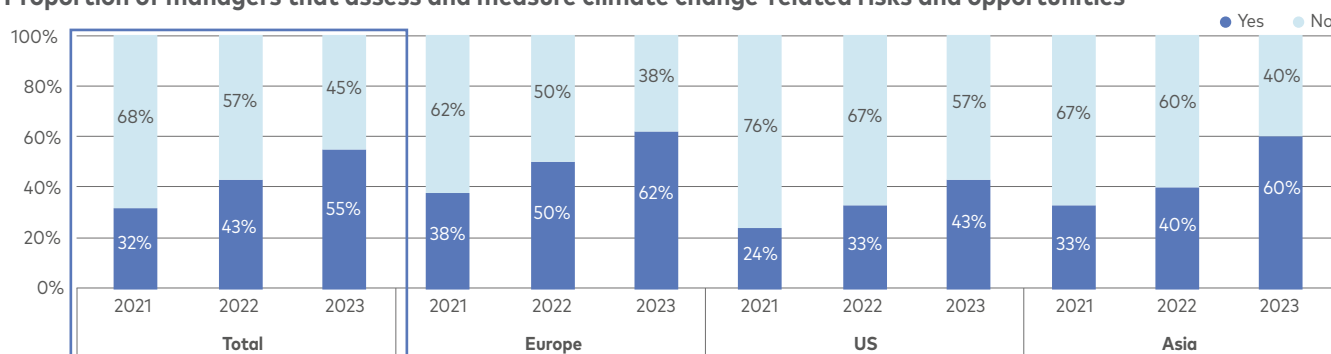
In addition to the annual questionnaire, we maintain an ongoing dialogue with our managers. Here, climate is a topic that is often discussed—e.g. with regard to setting carbon budgets that are aligned with net zero, assessing where portfolios currently stand and collaborating on how emissions can be reduced. One of our focus areas within climate action is to obtain more company-reported GHG data for our private equity portfolios. As mentioned earlier, LGT Capital Partners is a member of the EDCI and we use this initiative to encourage our managers to report according to the prescribed standards. In 2023, we

received data from a total of 125 managers, covering more than 1,600 underlying companies. The majority of the data concerns Scope 1 and Scope 2 emissions. We consider this a good starting point and aim to further increase data coverage in the coming years.

Another important aspect of our engagement approach is the sharing of best practices that we observe among our managers. For this purpose, we have developed two dedicated publications highlighting market-leading practices that should inspire other managers who are at an earlier stage of their ESG and climate action journey. Similarly, we include good practice examples in our annual firm-wide [ESG Report](#).

For example, in a recent ESG Report, we illustrated how Astorg, a global private equity firm with EUR 15 billion of assets under management, integrates climate action into its investment practices. Throughout the investment cycle, Astorg places 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 TCFD recommendations on governance, strategy, risk management and monitoring. Astorg specifically assesses how existing and potential new investments may be affected by climate-related physical and transition risks. Once invested, Astorg conducts an annual assessment of all its portfolio companies' policies and actions around 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. Their carbon footprints cover Scope 1 and Scope 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 path. In 2021, Astorg became one of the first private equity managers to have its GHG emission reduction targets validated by the SBTi, underscoring the firm's ambition to lead on climate action.<sup>1</sup>

### Proportion of managers that assess and measure climate change-related risks and opportunities



<sup>1</sup> The SBTi is a corporate climate action organization that enables companies and financial institutions worldwide to play their part in combating the climate crisis.

# Metrics and targets

## Investments we manage

### Measuring current exposure

We define asset classes as being "in scope" where we have a robust GHG measurement framework in place and the ability to effect change through our investment decisions and stewardship activities. Based on this definition, we have included securities from corporate issuers, such as equities and corporate bonds. Here, we measure the relevant financed emissions in our direct investment portfolios, externally managed funds and managed accounts. Asset classes such as money market instruments, sovereign debt and insurance-linked strategies are not yet in scope. These methodologies are still at an early stage of development and data coverage requires further improvement.

For private equity and private debt portfolios, where relevant data is more difficult to collect, we measure the carbon footprint of the portfolios using public market comparable information as a proxy for actual emissions. We also engage with the private market managers to include GHG considerations throughout the investment process by asking them to report on this in our annual ESG questionnaire, among other measures. In addition, we are working to improve the coverage and quality of data from the underlying portfolio companies, and we have joined the EDCI.

Our framework is based on Scope 1 and Scope 2 emissions. The framework does not yet include Scope 3 emissions, as we believe that data coverage of this category of emissions is not yet adequate and involves numerous double counting issues. We are working towards the broader gathering and reporting of data on Scope 3 emissions but do not plan to include these emissions in the measurement of our carbon intensity target at present. To provide the most complete disclosure possible, we are showing estimated Scope 3 emission data in the metrics section below.

For the purpose of this report, the firm's in-scope assets are estimated to be approximately USD 18 billion<sup>1</sup>. For these holdings, we report total carbon emissions, carbon footprint and weighted average carbon intensity across Scope 1, Scope 2 and Scope 3 emissions. Additionally, we show a breakdown of in-scope assets across equities, corporates and real estate (real estate includes only listed REITs and no direct real estate). Further, a sector breakdown of in-scope assets is provided.

### Emission methodology

In line with TCFD recommendations, we use the following metrics to report on our financed GHG emissions.

Metrics	Scope	Values
<b>Total carbon emissions (MtCO<sub>2</sub>e)</b>	Scope 1 and 2	445,520
	Scope 3	3,128,719
<b>Carbon footprint (tCO<sub>2</sub>e/USD m invested)</b>	Scope 1 and 2	24.8
	Scope 3	174.6
<b>Weighted average carbon intensity (WACI) (tCO<sub>2</sub>e/USD m revenue)</b>	Scope 1 and 2	62.8
	Scope 3	501.7

<b>Carbon footprint (tCO<sub>2</sub>e/USD m invested)</b>	<b>Values</b>	
	Scope 1 and 2	Scope 3
<b>Corporates</b>	42.3	250.8
<b>Equities</b>	17.1	142.7
<b>Real estate</b>	1.6	5.8
<b>Total</b>	<b>24.8</b>	<b>174.6</b>

### Sector breakdown

<b>Carbon footprint (tCO<sub>2</sub>e/USD m invested)</b>	<b>Values</b>	
	Scope 1 and 2	Scope 3
<b>Communication services</b>	5.6	49.3
<b>Consumer discretionary</b>	12.1	254.5
<b>Consumer staples</b>	12.8	176.6
<b>Energy</b>	214.5	2,088.8
<b>Financials</b>	1.3	43.5
<b>Health care</b>	4.3	85.5
<b>Industrials</b>	32.5	373.6
<b>Information technology</b>	9.9	68.3
<b>Materials</b>	180.5	593.1
<b>Real estate</b>	10.6	32.5
<b>Utilities</b>	151.4	230.8

<sup>1</sup>We strive to include as many portfolios as possible in committed AuM. However, due to specific circumstances related to particular benchmarks or investment universes, certain portfolios that are invested in equities or corporate bonds may not be included in in-scope AuM. Source: LGT Capital Partners, MSCI, data as of 29.12.2023



## Private markets

As members of the EDCI, we are presently sourcing climate-related data for our private equity holdings. The coverage and quality of this data are not currently as robust as those for our liquid market portfolios. Consequently, we are temporarily dependent on modelled data that is derived based on liquid markets proxies. In the spirit of transparency, we are presenting an aggregated estimation of climate-related metrics for our private equity holdings based on the estimated data. The figures provided below cover most of our private equity holdings totaling around USD 60 billion.

Metrics	Scope	Values
<b>Total carbon emissions (MtCO<sub>2</sub>e)</b>	Scope 1 and 2	1,883,568
	Scope 3	10,267,118
<b>Carbon footprint (tCO<sub>2</sub>e/USD m invested)</b>	Scope 1 and 2	30.8
	Scope 3	198.9
<b>Weighted average carbon intensity (WACI) (tCO<sub>2</sub>e/USD m revenue)</b>	Scope 1 and 2	70.89
	Scope 3	425.30

## Sector breakdown

<b>Carbon footprint (tCO<sub>2</sub>e/USD m invested)</b>	<b>Values</b>	
	Scope 1 and 2	Scope 3
<b>Communication services</b>	9.0	52.9
<b>Consumer discretionary</b>	23.3	275.6
<b>Consumer staples</b>	46.0	360.3
<b>Energy</b>	182.8	1707.3
<b>Financials</b>	0.6	32.4
<b>Healthcare</b>	6.0	54.1
<b>Industrials</b>	27.9	207.7
<b>Information technology</b>	2.3	43.9
<b>Materials</b>	304.1	615.3
<b>Real estate</b>	4.5	0.0
<b>Utilities</b>	393.2	53.5

Source: LGT Capital Partners, data as of 29.12.2023 based on estimated GHG data points

## Target setting

We have developed a comprehensive Climate Action Framework to align multi-asset, equity and fixed income portfolios with the goal of reaching net zero GHG emissions by 2050 or sooner. This work began with the development and subsequent rigorous implementation of our carbon budgeting framework for internal and external managers.

In March 2021, LGT Capital Partners joined NZAM and we confirmed our commitment to reaching net zero GHG emissions by 2050 or sooner across all assets under management.

The in-scope assets for our targets are the same assets displayed in the Metrics section before. Our initial target for the proportion of our assets under management that are managed in line with the goal of net zero

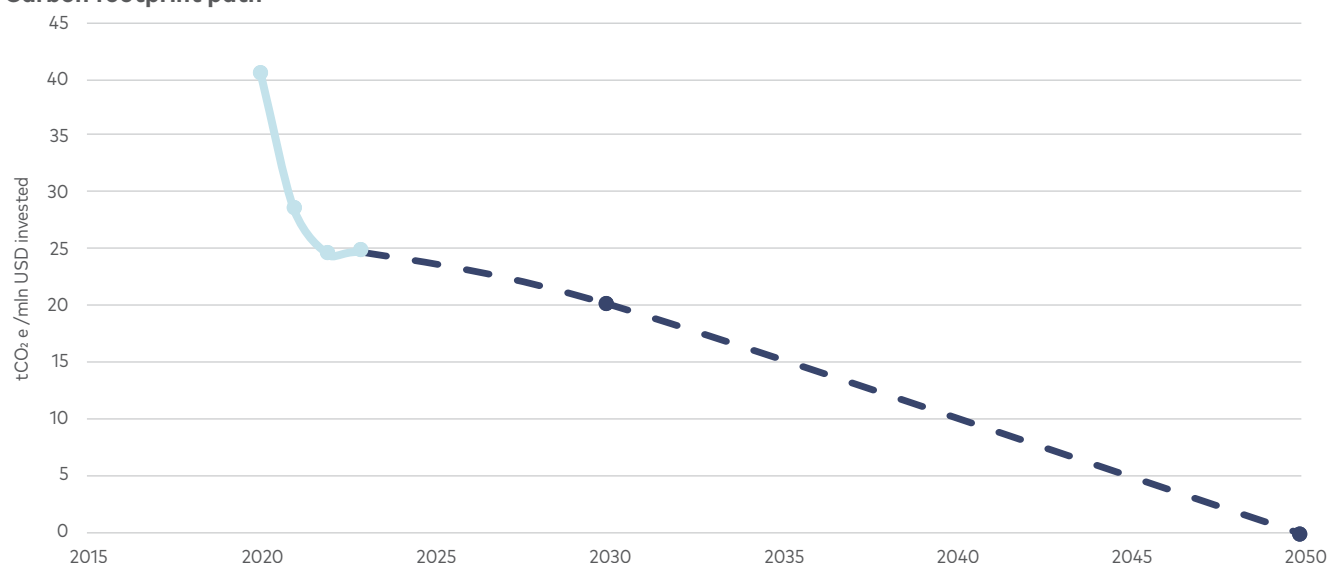
GHG emissions by 2050 was 22% of total assets under management at the time. This corresponds to our 2021 commitment<sup>1</sup>.

We have set ambitious interim targets for our committed investments with the aim of achieving a 50% reduction in GHG emissions by 2030, against a baseline year of 2020.

Since defining our commitment in March 2021, we have reduced our carbon footprint (tCO<sub>2</sub>e per USD million invested) from our committed investments by 38.6% compared to the base year. We achieved this emissions reduction mainly by shifting our exposure to more energy-efficient companies. Further efforts are needed to bring the committed investments in line with our interim target of a 50% reduction in GHG emissions by 2030.

	2023	Base year 2020
CO <sub>2</sub> Intensity (tCO <sub>2</sub> e/USD m invested) <sup>2</sup>	24.8	40.4

### Carbon footprint path



<sup>1</sup> This was equivalent to 18.8 billion USD at the time of the commitment.

<sup>2</sup> Based on the committed AUM

Source: LGT Capital Partners, MSCI



## Target setting for the LGT Endowment

The LGT Endowment combines traditional and alternative investments with a high level of diversification.

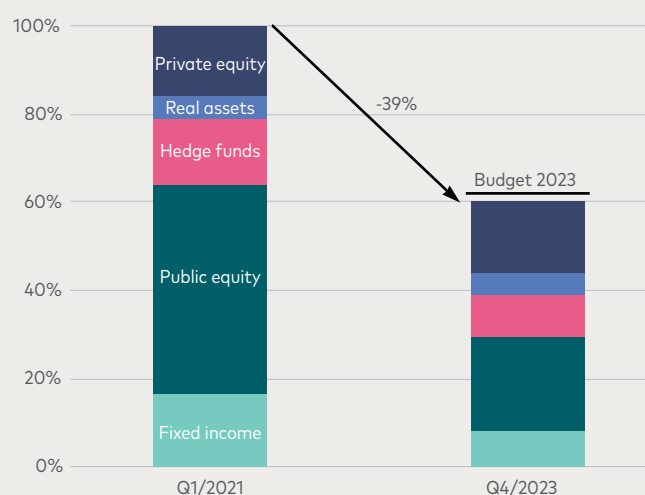
Measuring emissions for this wide range of asset classes forms the basis for setting emission targets. We are able to measure emissions for around 70% of portfolio assets, with a focus on corporate assets. For private equity, we use estimates based on public market industry averages at the most granular level available. Other asset types, such as insurance-linked strategies and sovereign bonds, are not yet included in portfolio emissions due to the absence of established measurement frameworks.

The target-setting framework includes the definition of carbon budgets for each asset class (where we measure emissions) and for individual managers. Here, we work with managers to assess where the portfolios currently stand and we are collaborating with them to determine how emissions can be reduced as far as necessary.

The LGT Endowment aims to reduce GHG emissions by 50% by 2030, against a baseline year of 2021, and to achieve net zero by 2050 or sooner. Yearly interim carbon budgets are set to ensure that the portfolio is on track to meet its targets.

Through our systematic efforts, we have been able to reduce the carbon footprint from 47.9 3 tCO<sub>2</sub>e per USD million invested to 29.3 tCO<sub>2</sub>e per USD million invested since the initial commitment in 2021. This represents a 39% reduction in the carbon footprint.

It is clear that the actions taken in the portfolio have made a significant contribution towards the LGT Endowment's alignment with net zero. The most noticeable impact stems from public equity. This is not surprising as these are the most liquid portfolios and changes can therefore be implemented more rapidly. Additionally, data quality and availability is higher for these public portfolios, allowing us to easily track the individual underlying holdings, while our framework currently still applies industry proxies for the measurement of private equity emissions. Our carbon reduction path and our commitment to net zero are clearly defined and we will continue to focus intensively on achieving the goal of net zero going forward.



# Metrics and targets

## Own operations

LGT CP has introduced the following measures:

- Measure, monitor and address Scope 1 and Scope 2 emissions related to our offices
- Measure and monitor waste production, electrical waste, hazardous waste and recycling rates
- Measure and monitor paper usage and the recycling rate
- Measure and monitor water consumption
- Measure and internally report business travel by cost center, comparing data to the company average

LGT Capital Partners focuses on sustainability aspects in the area of facility management. Sustainability site selection criteria, including green building labels, are applied to all new offices. We also strive to continuously optimize the energy consumption of existing buildings and engage with our landlords on topics such as energy usage, waste management, the provision of electric chargers for electric vehicles and parking areas for bikes, and other relevant topics.

To reduce traffic emissions from commuting, LGT Capital Partners actively encourages its employees to use public transport. In Switzerland and Liechtenstein, we offer financial incentives for alternative mobility solutions. We also promote the use of e-mobility solutions, and charging stations for electric vehicles are available for employees at several locations.

### Operational data

Tag	Unit	2023	2022	2021	2020	2019
Scope 1	tCO <sub>2</sub> e	75.25	44.23	44.44	195.74	207.11
Scope 2	tCO <sub>2</sub> e	135.28	77.89	115.96	198.63	156.68
Scope 3–1 Purchased goods and services	tCO <sub>2</sub> e/FTE	0.02	0.02	0.02	0.03	0.03
Scope 3–3 Fuel- and energy-related activities	tCO <sub>2</sub> e/FTE	0.10	0.06	0.07	0.10	0.12
Scope 3–5 Waste generated in operations	tCO <sub>2</sub> e/FTE	0.00	0.00	0.00	0.00	0.00
Scope 3–6 Business travel	tCO <sub>2</sub> e/FTE	1.87	1.56	0.29	0.24	2.49
Scope 3–7 Employee commuting	tCO <sub>2</sub> e/FTE	1.00	0.94	n.a.	n.a.	n.a.

Source: Sulytics, LGT Capital Partners, data for our main locations in Pfäffikon (Switzerland), New York, Paris, Dublin, London, Hong Kong, BERN (Liechtenstein). Data from smaller regional offices is extrapolated.

- 2019 and 2020 data has been extrapolated based on a limited number of locations.
- Scope 1: in 2021 at our headquarters in Switzerland we have switched our heating unit input from natural gas to Biogas significantly reducing our footprint; in 2023 we have updated the data points we cover to include refrigerants.
- Scope 2: in 2023 we have increased the locations we cover to include our offices in BERN; we have also improved our estimation methods to better reflect the energy sources.

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