Capital Partners
your partner for alternative investments

Approach to sustainable equities investing

Sustainable returns – better stocks for a better world

"As people and planet face ever greater challenges – global warming, the COVID-19 pandemic, increasing inequality – ESG efforts are increasingly focusing on real-world outcomes."

Front cover: stock.adobe.com, Lavender field with wind turbines

Contents

ESG enters the global mainstream

In 2020, the investment world experienced a difficult year. As global economies stumbled into lockdown throughout February and March, markets underwent periods of extreme volatility and almost everyone suffered sharp losses or saw shrinkages in assets under management ("AUM"). Despite these difficult conditions, one area of the investment world stood out during this period, not only due to the growing amount of capital being directed towards it, but also due to investor and asset manager consciousness. In an environment of contracting markets, "sustainable" or "Environmental, Social and Governance"-investing ("ESG") continued to be an area of growth and focus for the industry at large. The full impact of the COVID-19 crisis on the global economy has yet to be understood – indeed, it may take many years to do so – but what is clear is that the pandemic has brought social, ethical and environmental factors into sharper focus. In a reimagined post-pandemic economy, consumers and investors are asking deeper questions about the actions and offering of the businesses they engage with, and where their money is going. Alongside this, a growing number of voices are calling on governments to ensure that the recovery, when it does happen, is a "green" one, with greater emphasis placed on sustainability and environmentally friendly directives.

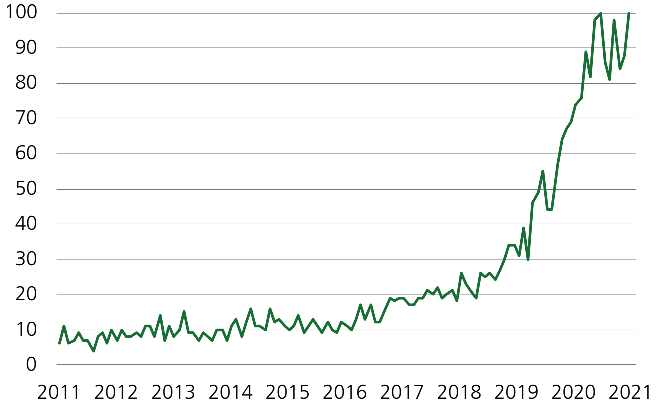
While this trend of increased awareness and interest in ESG was accelerated by the pandemic, it was already in motion before the COVID-19 crisis hit. The chart below shows that Google searches for ESG increased tenfold over the last five years.

What all this means for the investment industry is that its participants and investors can no longer afford to view ESG investing as a "subset" or niche area for just an interested few. With new regulations on the horizon, asset managers and advisers will soon be obligated to consider various ESG factors within their propositions, and, as investor demand increases, think carefully about how their propositions can attract and retain socially and environmentally conscious investors.

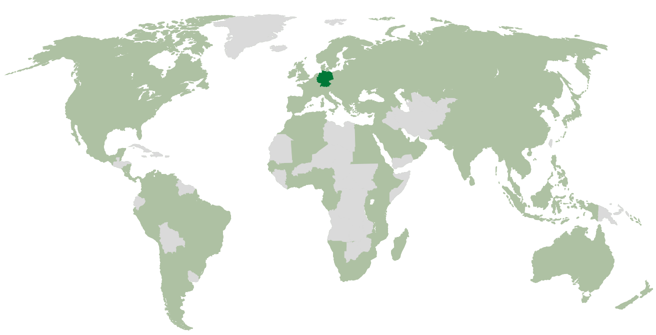
At LGT Capital Partners ("LGT CP"), we started integrating ESG into our sustainable equity portfolios as early as 2009, with strong support from our owners, the Princely family of Liechtenstein. At that time, sustainability was not yet high on the agenda for most investors. The family's engagement with ESG derives from their philosophy of being an entrepreneurial family that thinks in generations. Over the years, the ESG integration process has been continuously enhanced, for example, with the systematic integration of proxy voting in 2012, controversies in 2018, and the UN Sustainable Development Goals ("SDGs") in 2019.

The ESG world is a complex and fast-moving one. In just a couple of decades the concept has grown rapidly. As it continues to develop and ESG investing becomes the de facto position, this white paper examines why ESG investing is important to us, how we implement ESG in detail, and the potential benefits for our investors.

Relative Google Search volume of topic "ESG" in Finance context, globally: 10-times increase in the last 5 years



Regional concentration of relative Google Search volume of topic "ESG" in Finance context: a global movement



Source: Google Trends 2021

Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular. A score of 0 means there was not enough data for this term. The regional score of 100 is given to the location where the highest popularity was achieved in proportion to the total number of search queries.

LGT Sustainable Equities – facts and figures[1]

A+
PRI SCORE

7
USD BILLION AUM

57 ENGAGEMENTS WITH COMPANIES IN 2020

75%
LOWER GREENHOUSE GAS FOOTPRINT THAN MSCI WORLD (LGT SUSTAINABLE QUALITY EQUITY STRATEGY)

11+
YEARS, TRACK RECORD IN ESG INTEGRATION, REPORTING AND ENGAGEMENT

CONTROVERSIES SCREENING OF MORE THAN 90,000 NEWS SOURCES IN 20 LANGUAGES

COMBINATION OF ESG AND FUNDAMENTAL ANALYSIS DONE WITHIN ONE TEAM

UN PRI ENGAGEMENT: SIGNATORY SINCE 2008, BOARD MEMBER SINCE 2018

1,500+
ITEMS VOTED IN 2020

GOALS
LGT SUSTAINABLE QUALITY EQUITY STRATEGY HAS A POSITIVE IMPACT ON 12 SDGS

! FLEXIBLE, POWERFUL AND STATE-OF-THE-ART INTERNAL ESG ANALYSIS TOOL

260%[2]
OF ABSOLUTE RETURN SINCE 2009 (LGT SUSTAINABLE EQUITY GLOBAL STRATEGY)

[1] As of 30 September 2021

[2] Source: LGT Capital Partners, Refinitiv, LGT Sustainable Equity Global strategy (since inception), net of 1.50% p.a. management fee and 0.15% p.a. operations fee.

Past performance is not a guarantee, nor an indication of current or future performance. Returns may increase or decrease as a result of currency fluctuations.

Why does ESG matter for equity investors?

Companies are part of a complex, interconnected global system and therefore are not isolated from environmental, social and governance issues that affect the world as a whole. Environmental issues such as climate change, loss of biodiversity; social factors such as income inequality and safety; or governance factors, such as combating corruption and supporting strong institutional frameworks in countries in which they operate, can all impact a company's everyday business operations and financial performance. Therefore, at LGT CP, we firmly believe that the integration of sustainability, in combination with a bottom-up fundamental approach, improves risk-adjusted returns. Firstly, focusing on sustainability lays the groundwork for reducing long-term risks in portfolios, which might otherwise be overlooked by traditional financial analysis, for example carbon depletion and reputational damage. Secondly, a focus on sustainability creates opportunities for having a positive impact on environmental and social challenges while enhancing company value through sustainability-driven improvements, such as resource efficiency and workforce productivity.

Risk mitigation

In our view, firms with poor ESG performance are generally associated with a higher cost of capital and are more likely to experience legal, reputation and regulatory risks. In the past, there have been multiple ESG risk events that negatively impacted the companies involved, such as oil spills, factory collapses, human rights abuses, corruption allegations and financial or other forms of fraud, to name only a few. In order to explore the value and return implications of poor ESG practices, a study[3] examined over 80,000 incident news items from specialist provider RepRisk, relating to approximately 2,900 firms traded on US stock markets between 2007 and 2017. The study found that firms with high ESG incident rates are associated not only with more future incidents and weaker profitability, but also with lower risk-adjusted stock returns. In parallel to such specific events, there are also larger shifts at work. For example, with the development of new societal norms and regulation, particularly environmental policy, certain sectors face the risk of stranded assets and non-compliance. This is most commonly associated with the energy sector but can also affect other sectors such as transport, agriculture, real estate and mining, among others. The regulation database from the Principles for Responsible Investment ("PRI") has identified over 650 ESG-related policy tools and guidance that have come into force since the 1970s, 95% of which have been developed since the year 2000, and with 2020 seeing the highest number so far (124 new policies or revisions).

We also performed an analysis on our own investment universe, looking at the volatility of company returns over a period of five years from 31 December 2014 to 31 December 2020. The results showed that the excluded stocks (sector exclusion and bottom-scoring quartile) had a significantly higher average volatility (+2.9% and +1.4% respectively) than the full universe. Whereas companies ranked in the third, second and first ESG quartiles showed decreasing average volatility, with companies in the first quartile posting an average of 2.2% lower volatility.

While there is no perfect solution to fully anticipate or avoid ESG risks, we believe that incorporating ESG analysis can help identify and mitigate these risks.

[3] Glossner, Simon, ESG Incidents and Shareholder Value (February 17, 2021). Available at: http://dx.doi.org/10.2139/ssrn.3004689

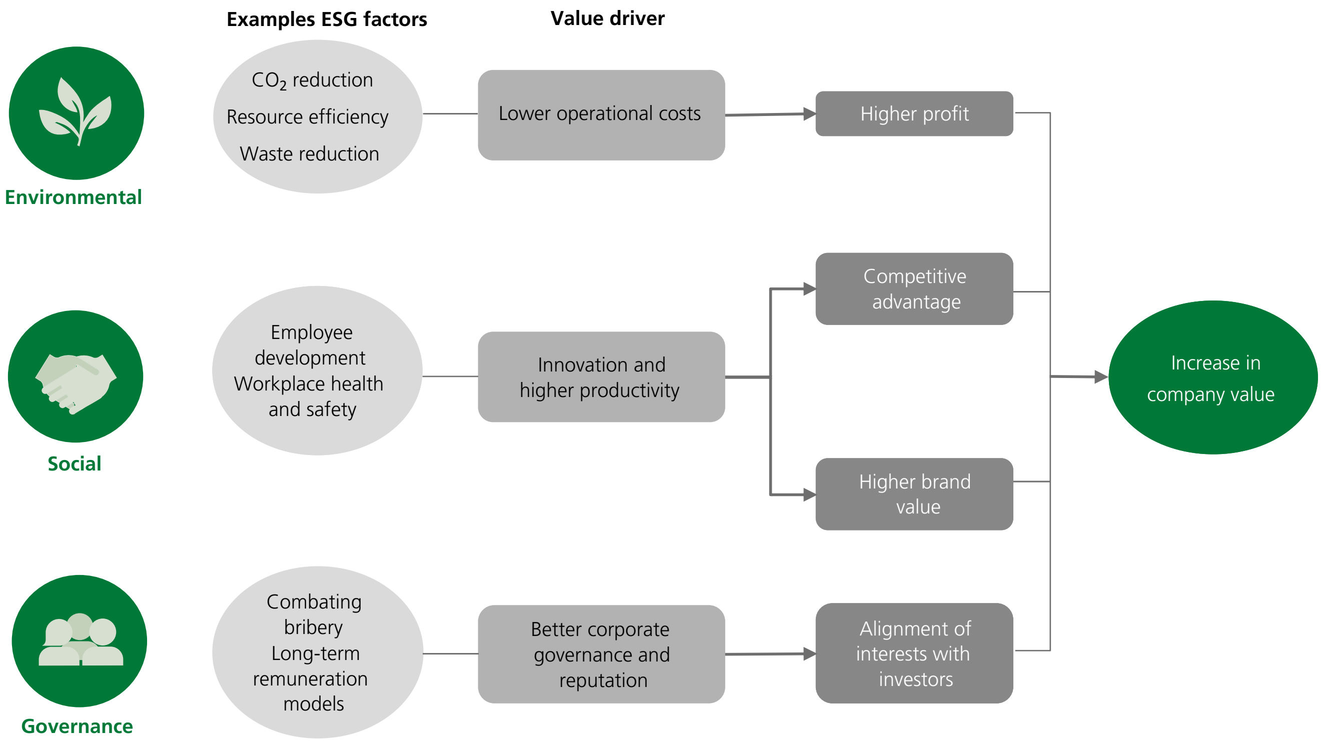
Long-term value enhancement

In our view, successfully managing ESG factors can not only mitigate risks but also lead to improved operating efficiencies, support value creation, and enhance the brand equity of a company. For example, positive employment conditions may result in higher retention and lower costs associated with turnover, such as training of new staff; these conditions also often lead to improved brand perception and easier attraction of talent. A large number of studies have analyzed the relationship between ESG factors and financial performance. One of the most comprehensive meta studies[4] combined the results of more than 2,000 individual studies. It concludes that about 90% of studies demonstrate a relationship between ESG and financial performance that is non-negative, of which more than 50% even exhibit a significant positive relation.

The diagram below shows examples of some of the key performance indicators (KPIs) that we consider and how we believe they can positively affect firm value.

While the cited studies are based on historical data, we believe this trend will continue to accelerate. As stated, ESG is high on the agenda of policy makers, ensuring it will impact the business landscape over the years to come. Additionally, a younger, more vocal and sustainability-conscious generation will shape the business models of tomorrow. A comprehensive ESG assessment, in combination with traditional financial analysis, can help identify the leaders and laggards in the investment universe.

Sustainable investing enables long-term financial value growth



Source: Display based on Michael E. Porter and Mark R. Kramer, "Created Shared Value", Harvard Business Review, January 2011

[4] Bassen, A., Busch, T. and Friede, G. (2015). "ESG and financial performance: aggregated evidence from more than 2,000 empirical studies". Journal of Sustainable Finance & Investment, 5(4). Available at: https://doi.org/10.1080/20430795.2015.1118917

Our approach

ESG criteria are an integral part of the investment process. Our ESG integration approach spans across four dimensions including exclusions, a comprehensive quantitative and qualitative ESG assessment, active ownership and finally, measuring the ESG performance of our portfolios. The pages that follow detail how ESG is integrated across these four dimensions. The ESG assessment is combined with a quantitative and qualitative (financial) fundamental assessment, which is, however, beyond the scope of this publication.

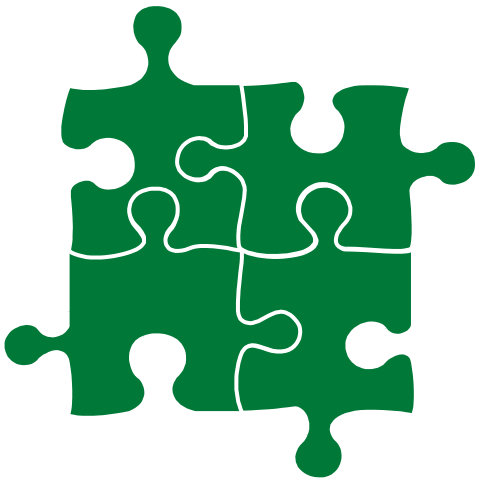
Holistic ESG integration

Exclusions

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

Integrating ESG factors

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



Active ownership

- Proactive dialogue with companies
- Reactive engagement potentially adverse developments
- Collaborative initiatives
- Push for green financing

Measuring and reporting

- Environmentall footprint
- ESG scores
- CO_2 attribution
- Benchmark comparison

Source: LGT Capital Partners

Exclusion

Sector exclusions

Companies that generate income from tobacco, gambling, arms, pornography, nuclear power production, thermal coal production or oil and gas extraction are excluded from the investment universe. For mandate solutions, additional sector exclusion criteria can be applied. For the majority of sectors, a 5% revenue threshold is implemented. However, for thermal coal, and oil and gas extraction, a more detailed definition is applied[5].

Conduct exclusions

UN Global Compact violators are excluded from the universe. Companies are identified as Global Compact violators from a controversial news flow assessment on business misconduct and/or issues related to products/services offered. This includes breaches of fundamental human and labor rights, environmental issues and corruption.

Bottom-quartile exclusions

The bottom scoring 25%, based on LGT CP's ESG scoring methodology described in the next section, are also excluded, and any further analysis centers on the remaining 75% of the universe. By focusing on this segment, we aim to include both companies that already score highly and those that have upside potential, while excluding those that lack commitment.

[5] Thermal coal producers: exclusion if revenue contribution from thermal coal activities exceeds 5% of total revenues or if company produces more than 1% of total global thermal coal production; Utilities: revenue share of power production <20%: exclusion if revenue contribution from thermal coal activities exceeds 5% of total revenues; >20%: exclusion if average carbon intensity is >2 degree scenario limit Unconventional oil and gas extraction: excluded if revenue contribution from these activities exceeds 10% of total revenues. Companies with expansion plans for unconventional oil and gas extraction are also excluded. Conventional oil and gas extraction: if revenues from conventional oil and gas extraction > 10%: excluded if their proved natural gas reserves < 40% of their total reserves.

Front cover: stock.adobe.com, wind turbines

Integrating ESG Factors

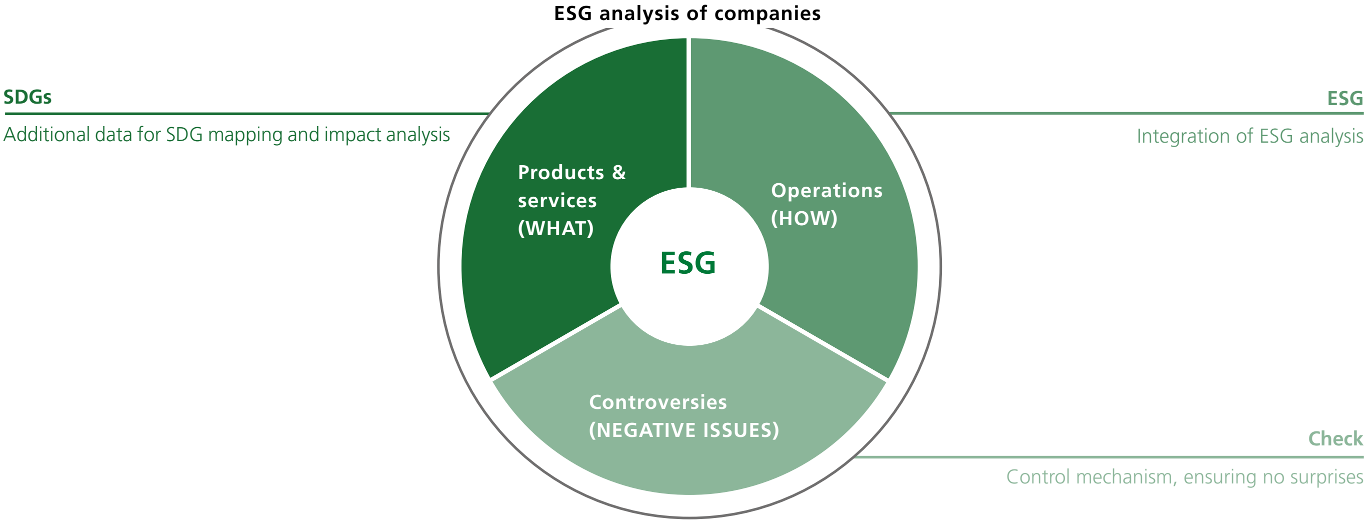
Quantitative ESG scoring

Following the exclusion criteria, the remaining universe is scored on ESG using a set of proprietary KPIs based on over 700 underlying data points aggregated via our ESG screening tool, the LGT CP ESG Cockpit[6]. Our approach considers a company's ESG performance through its operations, its products and services, and ESG controversies. Taken together, these dimensions provide a holistic ESG overview that identifies both risks and opportunities. We believe this is important as we want to avoid investing in companies that have a positive impact with their products, but are poorly run, and vice versa. Furthermore, we are convinced that a holistic approach is key to increasing risk-adjusted returns.

- Operations: Companies are screened for positive ESG commitment based on 21 KPIs. For example, we see such opportunities in companies that actively pursue strategies to reduce emissions, improve energy efficiency, adhere to good employment conditions, provide training and follow transparent corporate governance practices. The KPIs that are applied, and their respective weights, vary across different sectors according to particular characteristics of that specific sector. For instance, carbon emission levels are an important metric for utilities, whereas training and development metrics are, relatively, more important for IT services. This enables us to focus on factors that are meaningful and material in assessing the ESG characteristics of the company.
- Product/service impact: The impact of a firm's product and services are mapped against the SDGs that are relevant to those product categories. The impact is measured based on the severity of the impact as well as the revenue share derived from these outputs.
- Controversies: Negative news flow and current controversies relating to a company are monitored through RepRisk, which continuously screens over 90,000 publication channels in 20 languages worldwide. Issues identified by RepRisk are integrated into the ESG tool and translated into a numerical penalty which is deducted from the original ESG score.

Scoring provides a consistent, quantitative approach for defining a universe of possible securities for our portfolio managers and sector specialists.

LGT Capital Partners' holistic approach to ESG integration



Source: LGT Capital Partners

[6] Proprietary tool LGT CP ESG Cockpit is described on page 13.

Qualitative ESG assessment and ESG integration in valuation by sector specialist

It is part of our philosophy that sector specialists are responsible for conducting both fundamental and ESG research for companies from their respective sectors. We believe that this combined assessment allows the analyst to have a holistic view and deep understanding of a firm's risks and opportunities. The quantitative ESG scoring using the LGT CP ESG Cockpit described above provides a starting point for further qualitative analysis by sector specialists. Forming our own ESG score for each individual company is beneficial as it allows the analysts to understand exactly which data points and levers make up the score. This knowledge also helps inform the subsequent qualitative analysis. The specialists conduct a qualitative ESG assessment through engagement activities, their own research of publicly available information, and a controversy check.

This ESG assessment is also integrated into the valuation models. The calculation of the weighted average cost of capital ("WACC") allows for ESG-adjustments to both the cost of equity and cost of debt, based on the premise that companies with poor ESG performance are associated with higher risks. The result is that companies deemed more sustainable have a lower cost of capital applied in the valuation model and vice versa. The sector specialists choose the details and adjustments of their valuation assessment individually. Before the analysts' high conviction stocks are added to the recommendation list, they present their holistic assessment to the Sustainable Equity team, and other members of the portfolio management team have an opportunity to challenge the decision.

Monitoring and risk management

An independent risk management team notifies portfolio managers on a daily basis of any companies in the global universe whose ESG scores have fallen into the bottom 35th percentile (early warning) or the 25th percentile (position no longer allowed in universe).

The portfolio managers are responsible for continuously monitoring the stocks on their recommendation lists, including any changes in a firm's ESG strategy and developments. Additionally, reputational risks of portfolio positions are monitored through negative news flow sourced from RepRisk. This allows analysts to identify any potential critical reputation issues in a timely manner and react where appropriate, either through engagement or the sale of a position.

Active ownership

It is our responsibility as sustainable investors to use our position to try and influence the behaviors of companies to act in the most favorable way for society, investors and other relevant stakeholders. Our efforts cover a wide range of issues, including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance. Our engagement work spans different types of activities, ranging from direct dialogue with companies to systematic monitoring of news flow on investee companies.

Engaging with companies

As part of the initial and ongoing qualitative ESG assessment, the sector specialists are in continuous dialogue with companies within the LGT sustainable universe. They use company meetings to discuss firms' current ESG efforts and any areas of further development, including companies that already perform well. We may at times also be invested in companies that do not perform well on certain ESG aspects, but are on track to implement changes to improve in these areas. In such cases, we typically engage with these companies to gain a better understanding of processes implemented and the current state regarding these topics. It is a two-way dialogue which allows us to express our expectations as a sustainable investor, while also providing companies with the opportunity to offer further clarification and insight into their ESG practices and aspirations. Ultimately, both parties gain a better understanding of industry best-practice and our overall ESG assessment is further strengthened. The engagements can broadly be categorized into reactive engagement, following a material ESG event, or proactive engagements, whereby the team actively identifies ESG-related topics which we deem most relevant to the company and/or sector. We then engage with these companies on how they address the specific topic and assure best practices related to it.

We work together with other investors in cases where our engagement objectives are aligned and where we believe there is a higher probability of achieving a result through a collective effort. This can be done as ad-hoc collective action on specific topics, as well as through longer-term investor collaborations. For example, LGT CP is a member of the Climate Action 100+ initiative which focuses on large corporate gas emitters to ensure they take necessary action on climate change.

If our ongoing assessment of an active engagement case, including the company's actions and responses, leads us to the conclusion that it is unlikely that our defined objectives will be met, we terminate the engagement process. We then reduce or completely divest our holdings, or vote against the company in the form of proxy voting.

Exercising voting rights

LGT CP closely follows the SRI International Proxy Voting Guidelines provided by the Institutional Shareholder Services Inc. ("ISS"). The ultimate voting decision lies within the investment team. As shareholders, whenever possible, we use our voting rights in order to:

- Improve the level of reporting disclosure
- Align management compensation to ESG KPIs and emission targets
- Support strategic measures to accelerate or adapt to a low carbon business model

For more information, please refer to the Active Ownership Policy.

Measuring and reporting

Finally, an important part of the ESG integration is to measure and monitor the results and outputs of our strategies. Therefore, we have implemented ongoing monitoring of the sustainability criteria. In addition, we generate a transparent regular report of ESG parameters and current positioning. As this is such an important topic, we focus on this in more detail in chapter "Outcome orientation for our investors".

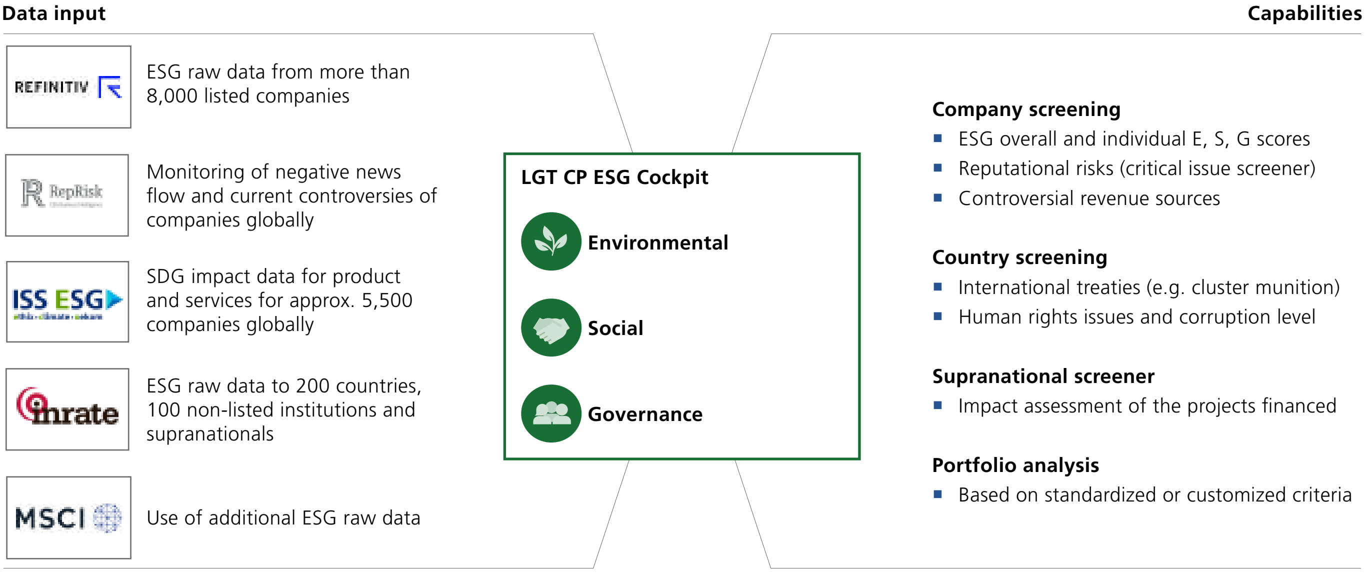
Own proprietary analysis tool – LGT CP ESG Cockpit

The engine of our sustainability selection process is LGT CP's proprietary analysis tool, the LGT CP ESG Cockpit, which has been developed and continuously enhanced over the past decade. The tool draws on publicly available ESG data from a variety of well-established information providers, including Refinitiv, Inrate, RepRisk, ISS ESG and MSCI. This data is then analyzed using a range of proprietary KPIs to form an ESG score for each company. Further, the data is used to derive an SDG impact score (for both products/services and operations) and and calculate the environmental footprint, including greenhouse gas emissions, energy and waste generation, as well as water usage.

The tool allows for companies to be assessed against their closest peer group as well as the entire universe. Companies are first scored across the environmental, social and governance themes separately and then these are combined into an overall ESG score. In addition to scoring individual companies, the tool also enables:

- The scoring of entire portfolios on ESG and its comparison to a benchmark index or peer group, including ESG score, SDG impact and environmental footprint metrics
- Monitoring of ESG scores and negative news flow for risk management purposes
- Implementation of LGT CP's sector exclusion criteria which can also be customized for mandate solutions

LGT CP ESG Cockpit – powerful, flexible and state-of-the-art



Source: LGT Capital Partners, Refinitiv, RepRisk, ISS ESG, Inrate, MSCI

Illustrative assessment – Estée Lauder Companies Inc.

In order to illustrate our assessment, we provide here a summary of the example of Estée Lauder Companies Inc. ("Estée Lauder"). The company manufactures and markets skin care, makeup, fragrance and hair care products under more than 25 brand names, including Estée Lauder, Aramis, Clinique, Lab Series, Origins, Tommy Hilfiger and MAC, to name a few. With approximately 48,000 employees and net sales of over USD 16 billion across more than 150 countries, Estee Lauder's approach to environmental, social and governance factors has a meaningful impact on a large group of stakeholders. Estée Lauder is strong in all three areas, scoring above average in each pillar, placing it within the 90th percentile of our universe.

The E, S and G of Estée Lauder's operations

The company is strong on environmental factors, as it is committed to keeping its ecological footprint as small as possible. It has one of the best environmental footprints in the industry and scores substantially above average in all four pillars (i.e. greenhouse gas emissions, energy consumption, water withdrawal, waste generation). Packaging optimization is key for Estée Lauder to reduce their environmental footprint further. Through their environmental initiatives, the company targets that 75 – 100% of packaging will be recyclable, refillable, reusable, recycled or recoverable by the end of 2025. In addition to its own efforts, the company promotes the sustainability of its packaging suppliers. Sustainability is one of the key criteria by which the company makes purchasing decisions, alongside quality, price and innovation. The responsible sourcing and transparency of ingredients used are a key priority for the company in the coming years.

Furthermore, the company is working hard on launching a growing number of 100% natural products, such as in the plant-based AVEDA brand.

ESG ratings	Total ESG	Environmental	Social	Corporate Governance
Score[7]	75.7	94.0	78.9	52.7
Percentile[8]	91.7	78.9	88.8	54.6

Footprint details	Greenhouse gas emissions	Energy consumption	Water withdrawal	Waste generation
Total emissions	106,930 tons CO_2 p.a.	289,000 megawatt hrs p.a.	1,500,000 cubic meters p.a.	30,850 tons p.a.
Emissions/sales	7.5 emissions/sales	20.3 consumption/sales	105.2 withdrawal/sales	2.2 waste/sales
Percentile	94.2	92.9	91.5	96.1

Source: LGT Capital Partners, Refinitiv, Bloomberg. Data as of 30 September 2021.

The company also performs well on social factors. For example, it scores particularly well on gender equality. Female representation is high across all levels: at the level of Vice President and above, 55% are women, and of the board of directors 40% are women. The company has been rated as one of America's Best Employers for Women and for Diversity in 2020 by Forbes. Estée Lauder also cares for its staff. The company offers full-time employees a compelling and competitive benefits package that includes health, survivor and wellness benefits, and retirement savings plans. Family-related benefits for eligible U.S. employees include, for example, 20 weeks of paid

[7] From quintile 1 = best 20% based on absolute LGT ESG score to quintile 5 = worst 20% based on absolute LGT ESG score. The distribution of the ESG scores are shown by portfolio weights.
[8] 100 represents best possible score (in percentile within the investment universe), 0 represents worst possible score (in percentile within the investment universe).

Past performance is not a guarantee, nor an indication of current or future performance. Returns may increase or decrease as a result of currency fluctuations.

parental leave, and a back-to-work flexibility program. The company also provides an assistance program to reimburse employees for up to USD 10,000 of qualifiable expenses related to the adoption of a child – regardless of an employee's gender, marital status, or sexual orientation.

While the corporate governance score is the lowest out of the three pillars, it is still above the universe and industry average. One of the main reasons for the lower quantitative score is due to the continued involvement of various Lauder family members in the firm's leadership. However, we do not consider this to be a negative factor, and in fact see a benefit in their involvement in continuing to drive the firm's culture and values, which stem, to a large degree, from the family's history.

Impact on the SDGs

Based on our framework, the company has a positive impact on 14 out of 17 SDGs, in particular due to a high operational SDG impact. The highest positive SDG impact can be found on SDG 5 (Gender equality) and SDG 10 (Reduced inequalities), analogous to the high social score mentioned above.

Scoring ESG controversies

Estée Lauder has no significant negative news flow or controversies shown in our screening.

Fundamental assessment

As previously stated, the ESG assessment is combined with a fundamental analysis. Estée Lauder operates within a very attractive category, namely beauty, with a top line growth of 4 – 5%. They are the leader in the global prestige cosmetics space which is growing even faster than the overall beauty category. In addition, the company is a key beneficiary of the rise of the global middle and upper class, who are expected to grow from 3.2bn (2015) to 5.6bn people in 2030. In addition, the number of seniors will grow substantially in the next few years (from 0.6bn in 2015 to 1bn in 2030). This group can likely afford more ultra-prestige brands such as La Mer. Estée Lauder's growth is supported by a long-term strategy diversified by different brands, categories, geographies and channels. The company is pushing strongly into channels other than US department stores. As an example, e-commerce is the fastest growing channel and already accounts for more than 20% of the overall sales. Importantly, Estée Lauder has stronger margins in e-commerce than at overall group level. Another example is travel retail, which will bounce back strongly at some point post pandemic and will become a high growth and a high margin channel, in our view. While most growth will be organic, the company has multiple opportunities to create scale with reasonably priced bolt-on acquisitions, which can then be distributed via their global platform.

Many consumer surveys indicate that beauty is among the last outgoings to be cut, even when times are tight. Estée Lauder's pricing power manifests in its high gross margin, which exceeds 77%. Combined with strong cash generation, good returns on capital, and steady top-line growth trajectory, this creates an impressive compounding algorithm.

Fundamental metrics	Estée Lauder	MSCI World
Strong organic growth opportunities	7 – 8%	
Gross margin	>77.0%	33.5%
Operating margin	16.5%	13.2%
Return on invested capital (ROIC)	24.2%	11.7%
Net debt/EBITDA	0.2	1.4
Interest coverage ratio	22.6x	11.0x
Cash conversion	>100%	69%
Free cash flow yield	2.9%	3.7%
Dividend yield	0.6%	1.7%
Beta	1.02	1.00

Source: LGT Capital Partners, Refinitiv, Bloomberg. Data as of 30 September 2021.

Outcome orientation for our investors

As people and planet face ever greater challenges – global warming, the COVID-19 pandemic, increasing inequality – ESG efforts are increasingly focusing on real world outcomes. However, it has been difficult to precisely define success and the outcomes we wanted to achieve. The industry has moved from awareness toward outcomes, supported by global initiatives, including the Paris Agreement and the unanimous approval of the UN Sustainable Agenda 2030 with its 17 SDGs. Globally, governments are announcing new programs to "build back better" in response to the pandemic and to support the transition to carbon-neutral economies. At the same time, new investor initiatives are working to develop "net zero" portfolios, accelerating the trend further. This shift from process to outcome orientation is the most important trend in ESG, but implementing it is not easy. Many institutions at the forefront of sustainable investing are working on, and often struggling to find, solutions. At LGT CP, we too have been moving towards a stronger outcome orientation in our ESG approach, which we will detail in this chapter.

Our commitment to manage climate risks in our portfolios

Climate change is the main threat of our time and we are at a defining moment. From shifting weather patterns to rising sea levels and biodiversity loss, the impacts of climate change are global and unprecedented in scale. Rapid and far-reaching changes are required in all aspects of society to limit global warming.

We support the framework formulated by the Intergovernmental Panel on Climate Change ("IPCC") to limit global warming to well below 2° Celsius compared to pre-industrial times, which has been signed by over 190 countries in the Paris Agreement. The Paris Climate Agreement sets ambitious targets for the reduction of global greenhouse gas emissions and exposes companies with high emission levels to the risk of serious financial consequences due to regulatory restrictions on these emissions, changes in consumer preferences, technological changes, or the costs from additional taxes, fines and fees.

In order to help combat climate change, we manage our portfolio along different climate related metrics and report on these metrics on a quarterly basis.

Alignment with the Paris Agreement

We aim to align our sustainable equity strategies with the goals of the Paris Agreement. As the average global temperature is directly linked to the concentration of greenhouse gas in the atmosphere, we assess the alignment of a portfolio by measuring the portfolio's emissions and comparing the result to a carbon budget derived from an appropriate climate scenario: we specifically use the Net Zero Emissions by 2050 ("NZE") scenario, developed by the International Energy Agency ("IEA").[9]

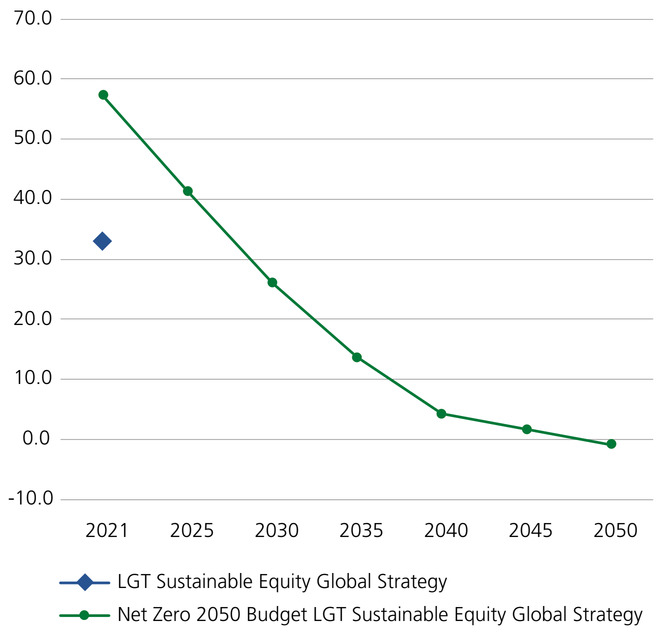
Portfolio emissions are compared to the budget based on the NZE, with two possible outcomes:

- Portfolio emissions are below or at the NZE budget: the portfolio is aligned with the Paris Agreement
- Portfolio emissions are above the NZE budget: the portfolio is not aligned with the Paris Agreement

Our target is to be below the respective budget at all times.

Below we show the results of an analysis for our LGT Sustainable Equity Global strategy. The chart shows the derived budget as well as the actual emission level, both measured in tons of CO_2 equivalent per USD million invested. We also project the evolution of the budget as far as 2050. The steep decline in budgeted emissions underlines the extremity of the measures that must be taken to decarbonize the global economy if we want to reach the goals of the Paris Agreement.

LGT Sustainable Equity Global strategy emission budgets



Details	Total (tons CO_2/ million invested)
Utilities Net Zero 2050 Budget	41.8
Owned utilities emissions	**15.8**
Remaining Part Net Zero 2050 Budget	15.4
Owned remaining part emissions	**17.1**

Total 2020	Total (tons CO_2/ million invested)
Total Net Zero 2050 Budget	57.2
Owned utilities emissions	**32.9**

Source: LGT Capital Partners, Refinitiv
Data as of 30 September 2021. The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

[9] The Net Zero Emissions by 2050 Scenario (NZE) shows what is needed for the global energy sector to achieve net zero CO_2 emissions by 2050. Alongside corresponding reductions in GHG emissions from outside the energy sector, this is consistent with limiting the global temperature rise to 1.5 °C without a temperature overshoot (with a 50% probability). Global energy-related and industrial process CO_2 emissions fall by nearly 40% between 2020 and 2030 and to net zero in 2050.

Environmental footprint measures compared to the reference index

We also actively manage and measure the environmental footprint of our portfolios. Measuring the carbon footprint of the portfolio, benchmark, and all individual positions in the investment universe helps to manage portfolio emission levels, thereby mitigating climate-related risks. It also allows for the comparison of the portfolio's overall emissions profile with reference indices and other portfolios. This provides sustainable investors – who aim to contribute to the reduction of greenhouse gas emissions through their investments – with a tangible measure of how successful their portfolio is in achieving this goal.

We aim to be at least 20% below the greenhouse gas emission level of the reference index, measured per USD 1 million of companies' revenues. Furthermore, we also aim to be below the respective level of the reference index for energy consumption, water withdrawal and waste generation, measured per USD 1 million of companies' revenues.

Environmental footprint (as of 30 September 2021)

Measure per USD 1 million of revenue	LGT Sustainable Quality Equity strategy	MSCI World Index	Positive impact per USD 1 million of revenue
Greenhouse gas emissions	**28** Metric tons CO_2 p.a.[10]	**127** Metric tons CO_2 p.a.[10]	**78% lower CO_2 emissions p.a.**[10] corresponds to CO_2 emissions of 40 cars
Energy consumption	**101** Megawatt hours p.a.	**279** Megawatt hours p.a.	**74% lower energy usage p.a.** corresponds to energy usage of 113 people
Water withdrawal	**646** Cubic meters p.a.	**1,263** Cubic meters p.a.	**49% lower water usage p.a.** corresponds to water usage of 14 people
Waste generation	**12** Metric tons p.a.	**184** Metric tons p.a.	**94% lower waste generation p.a.** corresponds to waste of 344 people

Source: LGT Capital Partners, Refinitiv

[10] CO_2 and other gases that are recalculated into CO_2 equivalent. The average emission of a new car in Europe equals CO_2 equivalent of 2.45 metric tons per year for driving distance of 20,000 kilometres per year and 122.4g/km CO_2 emission. The average electricity consumption in Europe is 1.582 megawatt hours per capita per year. The average water usage in Europe is 45.625 cubic meter per capita per year. The average amount of household waste in Europe is 0.502 metric tons per capita per year. Calculation basis of 2019 (greenhouse gas, water, waste) and 2018 (energy).

Portfolio SDG impact compared to reference index

The SDGs are a topic that has gained increasing attention in the last few years, with many investors exploring how to embed the goals into their ESG frameworks. The collection of 17 global goals was approved by 193 United Nations member countries in September 2015, and they address topics such as poverty, hunger, health, education, climate change, gender equality, water, sanitation, energy, the environment, and social justice. Achieving them is estimated to require the investment of USD 5 to 7 trillion per year until 2030. The SDGs themselves were designed as a set of environmental and social goals defined by governments and nongovernmental organizations, not as an investment framework. We developed a holistic framework that assesses the impact of companies on achieving the SDGs. It takes a broad approach to assessment by incorporating information on companies' products and services as well as their operations.

First, we analyze the impact of the companies' products and services on the SDGs, using LGT CP's proprietary ESG Cockpit, and then we analyze the impact of their operations. Assessing the impact of a given business activity is not always straightforward, as different aspects of the business can touch on the SDGs in different ways. For example, burning natural gas is less carbon intensive than coal, but it still contributes to global emissions. Similarly, industrial automation can increase resource efficiency and reduce injuries while also disrupting segments of the labor market. In short, there are often several orders of impact associated with a given business activity, but there are also areas for debate or further consideration. This is why LGT CP looks at a wide range of factors across a company's products, services and operations to triangulate a final impact score.

We aim to have a more favorable overall SDG impact than the reference index, and report on this on a quarterly basis. The chart shows that the LGT portfolio outperforms the benchmark on 15 of the 17 SDGs, especially on SDG 13 (Climate action), SDG 16 (Peace, justice and strong institutions) and SDG 15 (Life on land).

LGT Sustainable Quality Equity Strategy vs. MSCI World Index

Source: LGT Capital Partners, ISS ESG, sustainabledevelopment.un.org. Data as of 30 September 2021.

Conclusion

The movement of ESG into the global mainstream is driven by several factors: regulations demanding much more from investors, such as pension funds, in terms of incorporating ESG; increased stakeholder pressure; and, more broadly, increased activism. The two major reasons behind these developments are clearly climate change, and the ever-increasing urgency to mobilize capital to combat it, and the emergence of the SDGs as a globally accepted set of development targets for the future.

At LGT CP we have also witnessed the development of ESG dynamics first hand. Having started with a sustainable global equity strategy in 2009, the number of solutions has consistently increased since then. Today, four dedicated sustainable equity solutions are managed by a team of 13 portfolio managers and specialists. This includes strategies with a regional focus such as a European strategy, two global strategies, and a market neutral investment concept. The growing interest from investors has also led to a substantial number of new clients from around the world and resulted in a broad sustainable equities platform with USD 7 billion[11] assets under management.

As discussed, we are convinced that the integration of ESG into the investment process is helping to increase the risk/return profile of our offerings. In line with our integrated investment approach, we also provide a dedicated, comprehensive ESG report for our portfolios on a quarterly basis. In our view, this is essential in order to measure our ESG efforts and work towards better outcomes.

The ESG journey is far from over and there is a constant flow of information regarding new ideas and concepts in sustainable investing. While our investment philosophy and overall approach has remained unchanged since inception, we continuously enhance our tools processes as the ESG space advances, for example due to increased data quality. LGT CP is in an excellent position to remain at the forefront of these developments. We engage with stakeholders across the ESG landscape, including ESG networks – such as the PRI where we are honored to have Managing Partner and the chair of our ESG Committee Tycho Sneyers serving on the board – our investee companies, our investors, regulatory and industry bodies, and peers. It will require collaboration across all these groups to generate true change for the future.

[11] Data as of 30 September 2021.

Further information

A detailed overview of our sustainable equity offerings can be found below or by scanning the OR code:

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

LGT Capital Partners (USA) Inc.
30th Floor
1133 Avenue of the Americas
New York, NY 10036
Phone +1 212 336 06 50
Fax +1 212 336 06 99

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

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

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

LGT Private Debt (France) S.A.S
43 Avenue de Friedland
75008 Paris
Phone +33 1 81 80 5600

LGT Private Debt (Germany) GmbH
Neue Mainzer Strasse 6-10
60311 Frankfurt am Main
Phone +49 69 505060 4701
Fax +49 69 505060 4155

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

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

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

LGT Investment Consulting (Beijing) Ltd.
Room 1516
China World Tower 1
1 Jianguomenwai Ave
Chaoyang District
Beijing, P.R. China 100004
Phone +86 10 6505 8225
Fax +86 10 5737 2627

LGT Capital Partners (Japan) Co., Ltd.
9th Floor, Okura Prestige Tower
2-10-4, Toranomon, Minato-ku
105-0001 Tokyo
Phone +81 3 6272 6442
Fax +81 3 6272 6447

LGT Capital Partners (Australia) Pty Limited
Suite 40.04, Level 40
264 George Street
Sydney NSW 2000
Phone +61 2 7908 7777

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

www.lgtcp.com