LGT CAPITAL PARTNERS



# LGT Capital Partners Insights

# Net zero alignment of multi-asset portfolios

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**In memory of Peter Sigg**
This paper was written by our colleague Peter Sigg, who passed away unexpectedly in November 2025. Peter was a long-standing member of LGT Capital Partners and a driving force behind our climate initiatives. His commitment to sustainability and climate protection continue to inspire our work. We honor his contribution and dedicate this publication to his memory.



4 Introduction
6 Setting our climate ambition
8 Implementing our climate action framework
26 Building a climate-resilient portfolio
29 Measuring progress and next steps

# Introduction

At LGT Capital Partners, we recognize the scale of the challenges created by climate change and the growing direct and indirect impacts that they will have on the financial landscape as global temperatures rise and extreme weather events become more frequent, affecting all market participants. 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, we are committed to integrating climate considerations into our investment strategies and to protecting the assets that we manage. We have been addressing climate change for many years through the ESG integration approach that we apply to our investment activities. Our goal is to align our portfolios with our ambition of reaching net zero greenhouse gas (GHG) emissions by 2050.

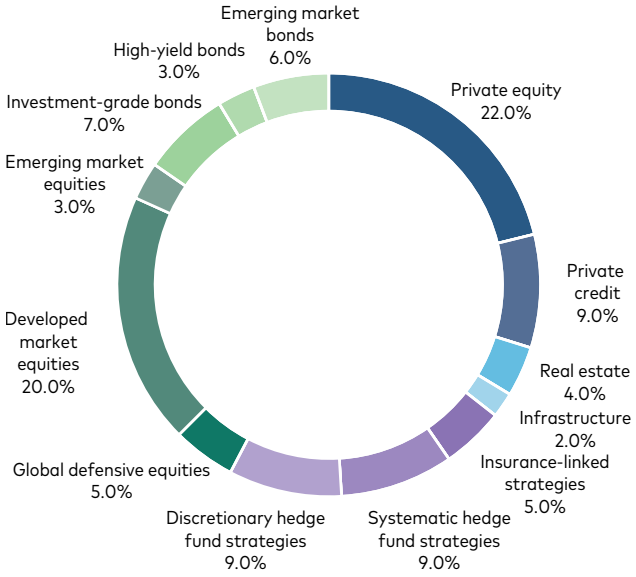
In this edition of CP Insights, we outline the climate action framework and the corresonding strategy that we have developed to achieve this goal and we provide a detailed explanation of our implementation approach. Using specific examples, we also illustrate how we can achieve positive real-world outcomes through effective capital allocation and engagement.

## The LGT Endowment

The Princely Family of Liechtenstein established LGT Endowment 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.

**The LGT Endowment**




Source: LGT Capital Partners

The LGT Endowment follows the same investment approach to that used for the Princely Family of Liechtenstein. The Endowment's investors include the Princely Family of Liechtenstein as well the LGT's employees and clients. The endowment is not an investment opportunity available to US persons.

"Our objective is to decarbonize in line with science, build climate resilience across asset classes and achieve this without compromising the LGT Endowment's long-term risk/return profile."



# Setting our climate ambition



As a responsible investor and a member of the Net Zero Asset Managers Initiative (NZAM)[1], 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. We decided to align the portfolio with a net zero target date of 2050. Our interim investment target is to reduce the carbon intensity of the in-scope assets[2] we invest in by 50% by 2030 versus a 2020 baseline.

To meet these targets and align the portfolio with the goal of net zero, we opted for a holistic approach that adheres to the principles of double materiality. From an investor perspective, double materiality implies that both the external factors that may affect a company's financial performance (financial materiality) and the company's own impact on society and the environment (stakeholder materiality) are considered when making investment decisions. We aim to achieve net zero without altering the LGT Endowment's risk/return profile. Our goal is to continue generating attractive financial returns while meeting our environmental and social objectives. We believe this is achievable due to the LGT Endowment's ability to exercise a high level of discretion when making investment decisions, as well as its extensive investment universe. Further, carbon emissions are currently highly concentrated within a few sectors and by carefully selecting investments within those sectors, we can maintain our existing investment profile. Many sectors still require the development of technologies and value chains for lower-carbon products and services. This is reflected in our gradual decarbonization approach, which supports an orderly transition and aims to avoid economic and social disruptions.

**The goal of net zero**



**Build climate-resilient portfolio**
Assess financial impact on portfolio and re-allocate if needed






**Drive decarbonization and energy transition**
Reduce negative impact on environment

Source: LGT Capital Partners, NASA

[1] The Net Zero Asset Managers Initiative is currently under review and has suspended certain activities, including tracking signatory implementation and reporting, pending the outcome of that review. Membership or signatory status to the above organizations & partnerships is specific to certain non-US LGT CP group entities and does not extend to all LGT CP group entities.
[2] We define asset classes as "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.



## ESG governance model

To advance the development and implementation of our climate action framework and strategy, we have established a comprehensive firm-wide ESG governance structure. Within this framework, the firm-wide ESG Committee oversees all ESG-related initiatives and decision-making processes across asset classes and investment teams.

As part of the ESG Committee, a dedicated Climate Action and Biodiversity Sub-Committee has been formed to focus specifically on climate-related matters. This sub-committee brings together experts from manager selection, risk management, analytics and data, asset allocation and direct security selection. Its cross-functional composition ensures that climate considerations are addressed comprehensively and integrated consistently across all investment activities.

To connect climate issues with broader ESG objectives, key topics and recommendations from the Climate Action and Biodiversity Sub-Committee are discussed within the firm-wide ESG Committee and our central ESG team team, which spans across all asset classes and ensures ESG measures are integrated into daily business activities. The active participation of ESG specialists from both liquid and private market investment teams is essential in this process, as it fosters a holistic view of sustainability across the LGT Endowment's full range of investments.

# Implementing our climate action framework

LGT Capital Partners has defined a comprehensive climate action framework based on our climate ambition, proclaiming two objectives:

**Objective 1: drive decarbonization and energy transition**
Reduce the negative impact of investments on the environment.

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 of achieving net zero by 2050.

**Objective 2: build climate-resilient portfolio**
Assess the financial impact of climate on the portfolio and reallocate capital if needed.

The second objective is more top down in nature, as it seeks to identify critical vulnerabilities within the investment strategy by stress-testing the portfolio against adverse future pathways. Based on this analysis, portfolio managers can reallocate capital where necessary in order to make the overall portfolio more resilient to climate-related physical and transition risks.

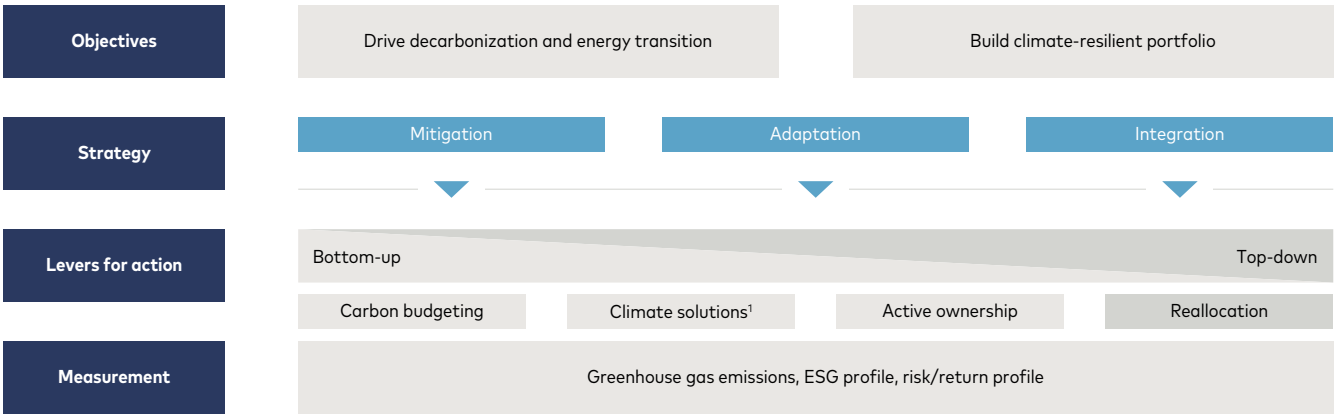
## Climate action strategy

We initially applied the climate action framework to the LGT Endowment. Our multi-asset flagship strategy is well positioned to implement the framework due to its broad diversification across traditional and alternative asset classes. Applying the framework to the LGT Endowment also has the advantage that all relevant investment teams are working towards the same climate-related objectives.

To deliver on the two objectives of our climate action framework, we developed a climate action strategy that is built on three dimensions:

1. **Mitigation:** this dimension addresses the root causes of climate change by reducing or preventing GHG emissions. This involves promoting cleaner energy sources, improving energy efficiency and encouraging sustainable practices to minimize the overall impact on the climate.
2. **Adaptation:** this dimension focuses on supporting businesses and initiatives that help communities to adapt to the effects of climate change, such as rising sea levels or extreme weather events. Adaptation measures mainly seek to capitalize on new opportunities, such as developing climate-resilient infrastructure or innovative business models.
3. **Integration:** this dimension involves embedding climate-related considerations into all levels of decision-making, from policies to investment strategies. This ensures that climate-related risks and opportunities are systematically addressed, aligning actions with sustainability objectives and fostering resilience across investments.

**Climate action framework**




Source: LGT Capital Partners

[1] We also consider carbon credits as climate solutions. Find more information in section "Carbon credits as climate solution"

## Levers for climate action

Our climate action framework has four main levers to help us reach our objectives:

1. **Lever 1:** carbon budgeting
2. **Lever 2:** climate solutions
3. **Lever 3:** active ownership
4. **Lever 4:** reallocating capital

The implementation approach within a portfolio depends on the nature of the asset class, the availability of relevant data and robust methodologies and whether the approach 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 climate action strategy. In our private market portfolios, the strategy is being implemented gradually over time. This is due to the illiquidity of the portfolios and depends, among other things, on methodological developments, net zero commitments by the underlying managers and improved data availability. In parallel, we are following the recommendations set out in the Net Zero Investment Framework Component for the Private Equity Industry issued by the Institutional Investors Group on Climate Change (IIGCC) in 2023, which provides guidance for the private equity ecosystem (LPs, GPs and portfolio companies) on setting targets, engagement and reporting to support alignment of private equity investments with net zero at scale.

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 that applies to all directly managed strategies and a comprehensive fossil fuel policy that applies to the firm's directly managed sustainable equity and fixed income strategies.[1]

### Institutional Investors Group on Climate Change (IIGCC)

The IIGCC aims to bring the investment community together to work towards a net zero and climate resilient future. It seeks to drive the transition that the world needs by unlocking investor action on climate change. The group has more than 400 members, mainly pension funds and asset managers, across 27 countries, with over EUR 65 trillion in assets under management. Then IIGCC works with its members to address climate risk and ensure they are well positioned to capture the investment opportunities offered by climate mitigation and adaptation efforts. LGT Capital Partners' staff members participate in several IIGCC working groups to help develop guidance for specific asset classes and active ownership strategies.

**Four levers of climate action framework**

| | | | |
|---|---|---|---|
| **Lever 1: carbon budgeting** Increasing exposures to single companies or entire sectors whose emission pathways are aligned with the goal of net zero emissions by 2050. | **Lever 2: climate solutions** Increasing investments in climate solutions, e.g. through allocations to green bonds and the renewable infrastructure segment. Our investment teams also continue to identify investments that can make a positive contribution to mitigating climate change. | **Lever 3: active ownership** Engaging with companies, supranationals and sovereigns held in our direct strategies, as well as with our external managers, is a priority. By actively using our voice through both engagement and voting, we aim to help drive meaningful change. | **Lever 4: reallocation of 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 and allocations and to build climate-resilient |

Source: LGT Capital Partners

[1] Please find more information in our climate action strategy on www.lgtcp.com

## Lever 1: carbon budgeting

Carbon budgeting enables us to align portfolio emissions with science-based pathways and to monitor progress toward net zero in a transparent and measurable way. By defining specific emission budgets for our portfolios, we can ensure a higher degree of confidence that these budgets will not be exceeded. This approach also provides portfolio managers with greater flexibility to allocate capital across the full investment universe while remaining within defined carbon limits.

**Pathways to reach net zero**
Following a detailed evaluation, we decided to use the Net Zero 2050 (NZE) scenario defined by the International Energy Agency (IEA) for carbon budgeting. The NZE scenario focuses on energy-related emissions and excludes agriculture, aligning with the emissions that we are exposed to through our investments. Additional benefits of the NZE scenario include the availability of sector-specific pathways and the availability of sufficient robust data for analytical purposes. It should be noted that this scenario focuses exclusively on Scope 1 and Scope 2 emissions (see chart on the next page).

**Carbon budgeting methodology**
A key element in the application of our carbon budgeting methodology is the distinction between high-emitting companies and lower-emitting business activities. We use a combination of a sector decarbonization approach (SDA) and a value-added approach to calculate the carbon budget. We mainly use the SDA for companies with high-emitting, homogeneous business activities, while we apply a value-added approach to companies with lower-emitting or heterogeneous business activities. Both approaches are science-based. In the case of high-emitting industries, the industry-specific pathways from the IEA Net Zero 2050 scenario are used.

# Spotlight on the sector decarbonization approach

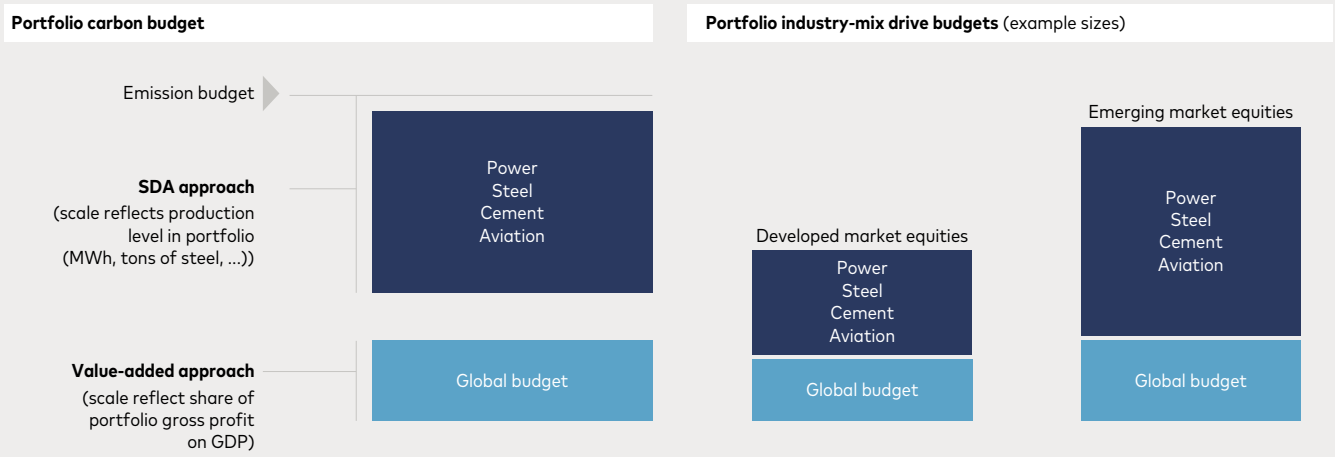
When applying the SDA, companies are allocated a carbon budget based on their sector-specific activities. The four main SDA sectors are considered in our calculations:

- Power (electricity generation)
- Steel
- Cement
- Aviation

The value-added approach assigns a carbon budget based on each company's gross profit contribution to global GDP. For internally managed, passive and private market strategies, the carbon budgets are derived from the industry mix of underlying holding companies. For externally managed strategies in liquid markets, the carbon budgets are based on the industry mix of the corresponding benchmark.

The chart below illustrates that sector-specific activities vary in intensity across regions (developed vs. emerging markets). For example, economic activities in emerging markets are typically more driven by steel and cement production and therefore receive a higher carbon budget.

### Portfolio carbon budget




Source: LGT Capital Partners
Charts for illustrative purposes only. This data is purely indicative and is not a guarantee of future results.

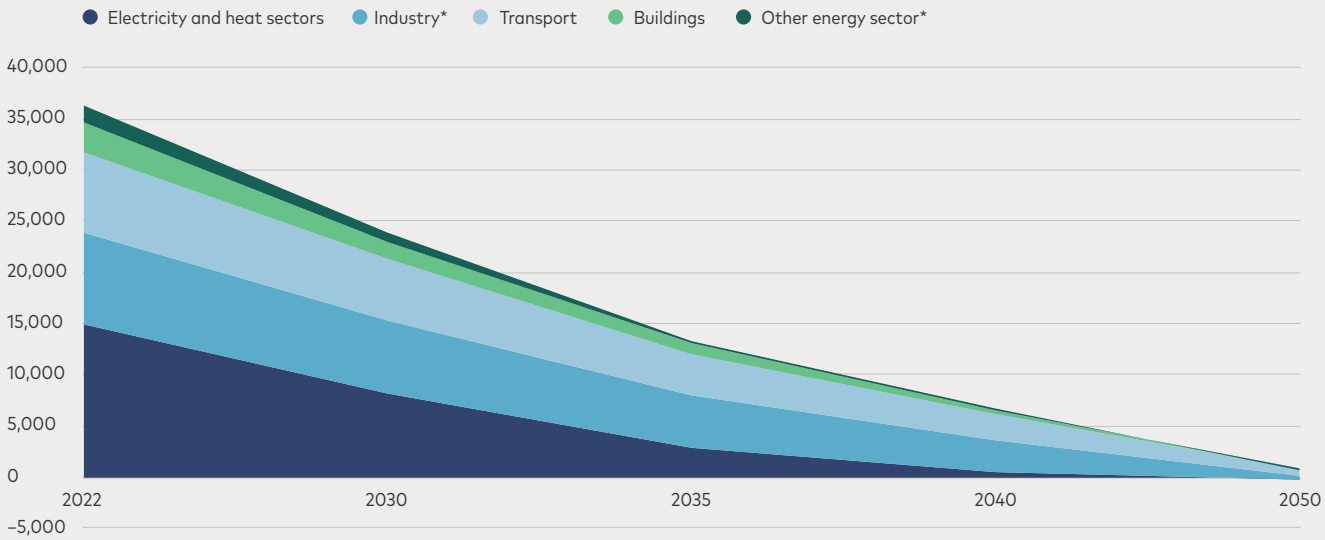
# Foundations of the net zero framework

**Net Zero 2050 (NZE) scenario**
The International Energy Agency's (IEA) Net Zero by 2050 scenario outlines a roadmap for the global energy sector to achieve net zero carbon emissions by 2050. The scenario emphasizes a rapid transition to renewable energy, massive improvements in energy efficiency and the widespread adoption of electric vehicles. It calls for no new investment in fossil fuel projects, a dramatic reduction in coal and oil use and the decarbonization of sectors like power, transport and heavy industry.

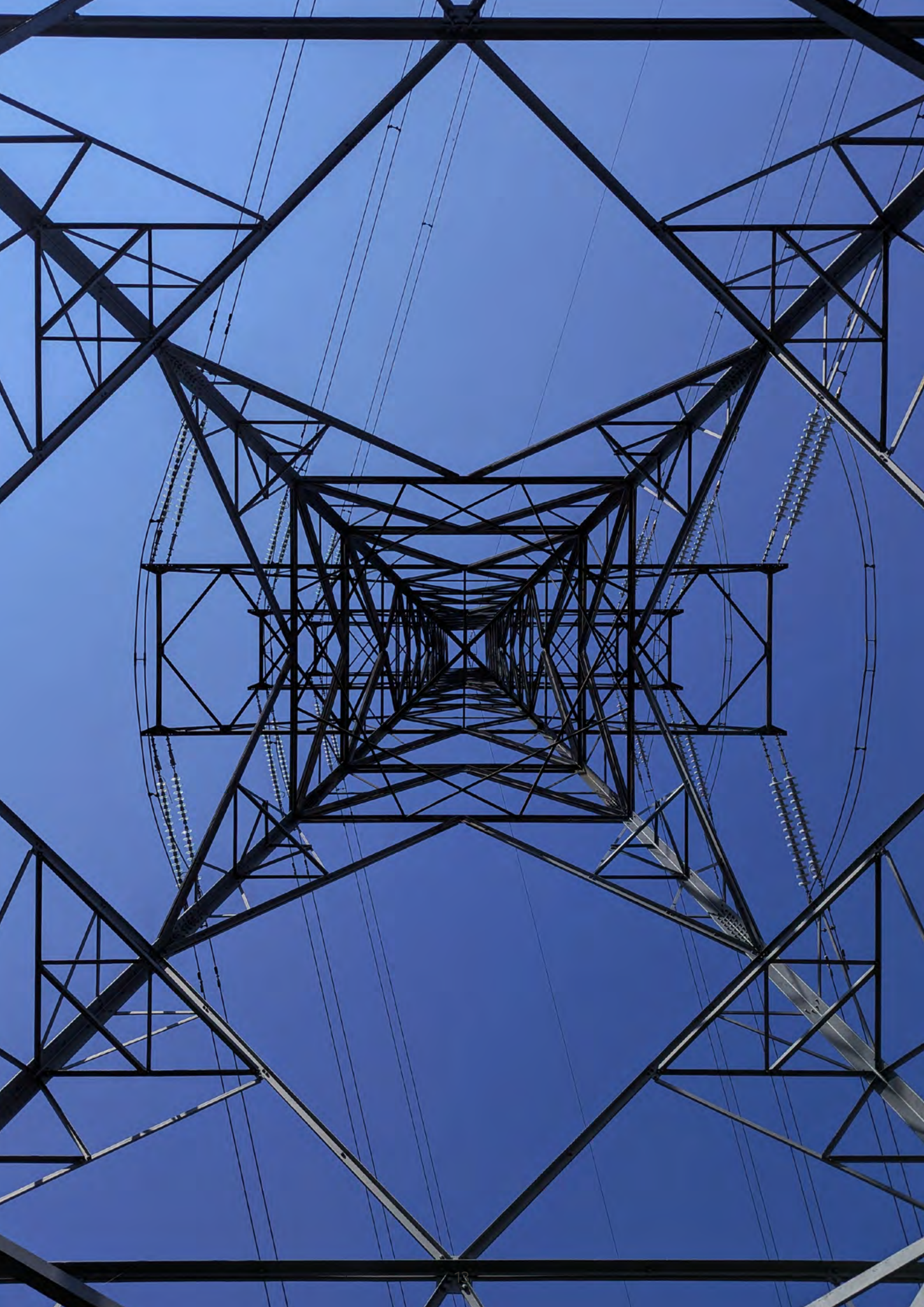
**Net Zero Investment Framework (NZIF)**
The Net Zero Investment Framework is at the core of the Paris Aligned Investment Initiative (PAII), which is delivered by four investor networks including IIGCC. The NZIF is the guide that is most widely used by investors to set targets and produce related net zero strategies and transition plans. It is a guide and not a protocol. Investors make their own unilateral decisions regarding the ways and means with which they will set and reach net zero targets, taking account of their own strategies, agendas, starting points, fiduciary duties, client mandates and regulatory considerations.

**Scope 1, Scope 2 and Scope 3 emissions**
The classification of Scope 1, 2 and 3 GHG emissions is defined by the Greenhouse Gas (GHG) Protocol, a globally recognized standard for measuring and managing greenhouse gas emissions. Scope 1 emissions refer to direct emissions from sources that are owned or controlled by a company. Scope 2 emissions are indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the company. Scope 3 emissions include all other indirect emissions that occur throughout the company's value chain, covering everything from the production of purchased goods to employee travel and the end-use of sold products.

**Global $CO_2$ emissions pathways in the IEA Net Zero 2050 scenario**




* Includes industrial process emissions
Source: LGT Capital Partners,IEA Net Zero Roadmap 2023, Global $CO_2$ emissions and reduction contributions by sector



**Methodology for measurement and coverage of emissions**
Our climate action 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. 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 have included securities from corporate issuers, such as equities and corporate bonds, in our climate action 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 (ILS) 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 enhancing the coverage and quality of GHG emissions data through our participation in the ESG Data Convergence Initiative (EDCI), an industry-wide effort to standardize ESG metrics in private equity.

**ESG Data Convergence Initiative (EDCI)**
The ESG Data Convergence Initiative is an industry-wide collaboration that aims to standardize and improve the quality of ESG data in the private equity industry. Convened by ILPA and supported by more than 500 LPs and GPs representing around USD 38 trillion in AUM, the initiative provides a common set of metrics for consistent ESG reporting and benchmarking.

By promoting greater transparency and comparability, the EDCI enables investors to assess and manage sustainability performance across portfolios more effectively. LGT Capital Partners joined the initiative in 2021 and continues to support its mission to establish consistent, high-quality ESG data standards in private markets.

**Monitoring progress with the ESG Cockpit**
To ensure accurate measurement and effective implementation of our carbon budgeting approach, we use the proprietary LGT Capital Partners ESG Cockpit. This analytical platform enables us to measure and monitor GHG emissions across asset classes, down to the sub-asset class and manager level. It provides a detailed overview of key parameters such as carbon emission coverage, carbon budgets and current emissions, allowing for targeted follow-up and engagement actions where gaps are identified.

We measure emissions for a wide range of asset classes to establish the basis for setting emission targets. Currently, we are able to measure emissions for around 73% of portfolio assets, with a focus on corporate exposures. Some asset types, however, such as ILS and sovereign bonds, are not yet included in portfolio emissions due to the absence of established measurement frameworks.

The ESG Cockpit supports systematic progress by providing consistent, comparable emissions data across a wide range of asset classes. By integrating these insights into our carbon budgeting framework, we can continuously monitor decarbonization progress, identify areas requiring engagement and ensure that portfolio emissions remain within defined budgets.

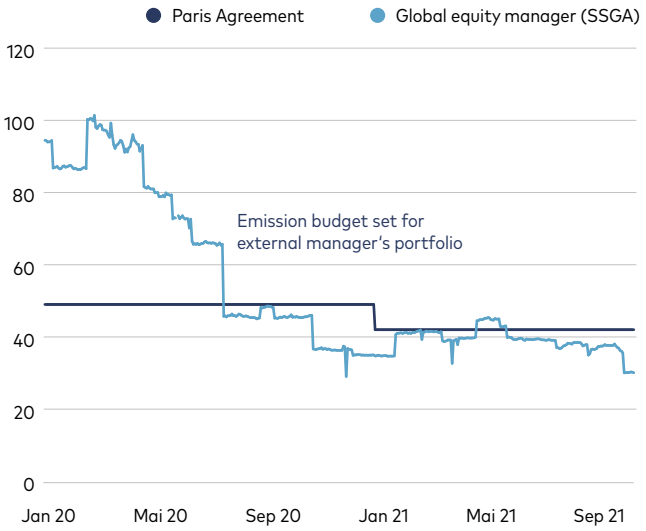
**ESG Cockpit**
The ESG Cockpit is our proprietary analysis tool that integrates raw data from a range of ESG data providers into over 40 KPIs in order to assess the ESG profiles of different companies. Next to the ESG profiles of companies, it analyzes environmental footprints, including GHG emissions and GHG budgets, business controversies and all kinds of regulatory data like EU taxonomy data. All this data can be aggregated at the portfolio level for monitoring purposes in the tool.

**Decarbonization and net zero alignment of public equities**

In the previous section, we outlined how a broad range of opportunities can be captured while aligning with net zero goals. In this section, we aim to demonstrate how we work to decarbonize managers who are still quite far from meeting the net zero budget. A prime example of this dates from 2020, when we first began our net zero alignment efforts. This external global equity manager gradually shifted its portfolio exposure towards energy-efficient and low-carbon companies.

**Gradual decarbonization**

**Budgets in carbon intensity[1] set for external manager portfolios**




Source: LGT Capital Partners, MSCI, Refinitiv, SSGA
The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

We adjust the carbon budget annually based on our carbon budgeting approach (see page 10). The chart above shows that a reduction of around 7% was achieved in January 2021. When selecting new managers, we already consider their carbon footprint during the due diligence process. In this way, we can ensure that most new managers are already aligned with our strategy at the time of the initial investment.

Importantly, the majority of our external mandates are held in segregated managed accounts. This set-up enables us to customize our externally managed strategies in line with our ESG targets and carbon budgets, as well as our key financial parameters. This level of customization can only be achieved to a very limited extent within fund structures.

**Hedge funds and GHG considerations**

We also apply our GHG measurement framework to companies in our hedge fund strategies. Our managed account platform is particularly useful in providing transparency for monitoring and a robust data foundation for engagement.

In 2019, the LGT Endowment seeded an ESG version of the market-neutral strategy of our long-standing manager Arrowstreet Capital. The strategy follows the same investment process as its flagship fund but integrated the following ESG elements:

- Controversial weapons producers were excluded from the start.
- Exposures are tilted on the long side to ESG leaders and on the short side to ESG laggards.
- In 2021, a tilt towards lower-emitting companies was introduced on the long side and higher-emitting companies on the short side, so that the expected net carbon emissions for the portfolio would be zero or negative in the long term.

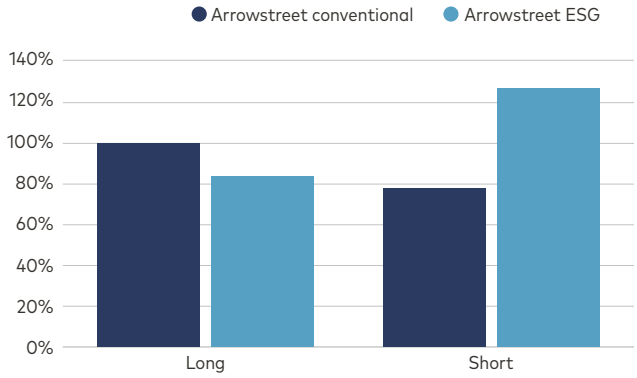
These tilts were calibrated together with Arrowstreet to incorporate significant sustainability features without negatively impacting the expected risk-adjusted performance. Arrowstreet can achieve this as a result of its extensive investment universe of over 12,000 stocks globally, from which it can select similar companies with enhanced ESG characteristics. For stocks where there are no reliable ESG scores or carbon emissions, Arrowstreet infers these values by looking at data from similar companies.

Arrowstreet has achieved strong risk-adjusted returns with the ESG strategy we seeded in 2019. This helps us to improve the ESG and carbon profile of the hedge fund allocation. The return profile of the ESG strategy and the flagship fund are very similar, with minor temporal differences arising due to flows, the ESG tilt and the different starting point.

The chart below compares the GHG footprint of our invested ESG version with that of Arrowstreet's conventional strategy. It clearly shows that the deviations on the long and short sides yield positive results. On the long side, the footprint is lower than that of the conventional strategy, indicating that the ESG version is more selective and allocates less capital to carbon-intensive businesses. Conversely, on the short side, the ESG version has a higher footprint, meaning we are shorting higher-carbon companies more aggressively. This approach may exert pressure on share prices and potentially drive changes in management behavior regarding the decarbonization of their operations.

[1] Carbon intensity represents GHG emissions in tons $CO_2$-equivalent per USD million invested capital

### GHG footprint of Arrowstreet conventional vs. Arrowstreet ESG funds




Source: LGT Capital Partners, Arrowstreet Capital

### Integration of forward-looking information

In addition to the budgeting approach, we have expanded our climate-action investment framework to now also take into account forward-looking company information and to differentiate between companies with existing targets and transition plans and those that have not set any targets. Over the past year we have implemented the alignment maturity scale of the IIGCC NZIF, which aims to establish a common approach to assessing an asset's pathway to net zero for both owners and managers. The NZIF provides an alignment maturity categorization to assess companies against net zero ambitions in a staircase scoring system. Under the NZIF there are six core criteria that should be considered when assessing a high-impact company's overall net zero transition plan and three criteria to be considered for lower-impact companies.

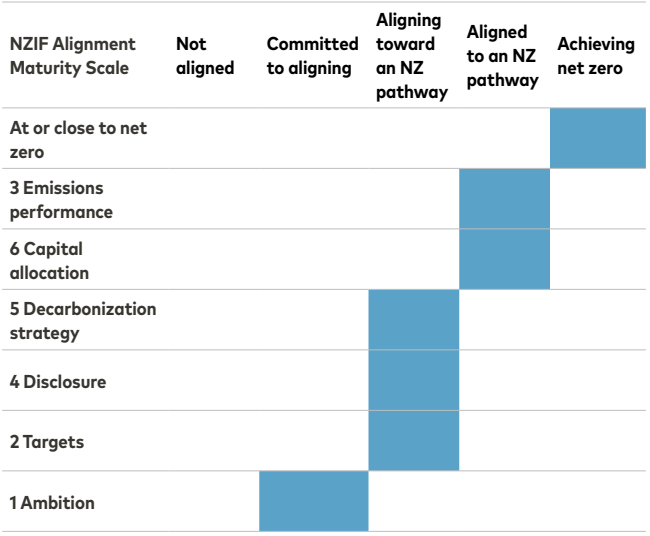
### The NZIF criteria

| | | |
|---|---|---|
| | Ambition | Does the company have a long-term 2050 goal consistent with net zero? |
| **Lower impact** | Targets | Are short or medium-term emissions reduction targets in place? |
| | Emission performance | Is the company's emissions performance in line with science based net zero pathways? |
| | Disclosure | Does the company disclose Scope 1, Scope 2 and material Scope 3 emissions? |
| | Decarbonization strategy | Is there a quantified plan in place to deliver GHG targets and/or proportions of increasing green revenue? |
| | Capital allocation | Does the company demonstrate that its capital expenditures are consistent with achieving net zero emissions by 2050? |

Source: LGT Capital Partners based on NZIF by IIGCC

Lower-impact companies only have to meet criteria 2, 3 and 4, while higher-impact companies have additional criteria to meet. Depending on how companies align with these criteria, the alignment maturity scale groups companies according to the following ratings:

### The NZIF path to net zero: maturity ratings




Source: LGT Capital Partners based on NZIF by IIGCC

Each maturity rating requires that for each company a specific set of criteria are met before the next alignment criteria can be considered. For the "committed to aligning" rating, only the ambition criteria need be met. As lower-impact companies have no requirement to meet criterion 1 on ambition, we introduced our own criteria for lower-impact companies to achieve the "committed to aligning" rating and this requires lower impact companies to have a company-wide target as a minimum qualification.

The implementation of our alignment categorization allows us to derive interesting insights on how global companies are aligned with net zero, as well as assessing and comparing our portfolios to benchmarks. The categorization also supports our engagement efforts by providing a more quantitative and objective evaluation of companies' progress toward net zero.

## Lever 2: climate solutions

In addition to carefully assessing the risks of climate change for our investments, we dedicate time and resources to identifying and investing in 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.

We follow a structured methodology to identify climate solutions, particularly when assessing corporate activities. Our initial reference point is the EU Taxonomy's first two climate-related objectives. We assess the proportion of a company's capital expenditure and revenues. aligned with these objectives and use this to quantify the share of an investment attributable to climate solutions. In cases where companies do not report EU Taxonomy data, we conduct a detailed analysis of their products and services. This involves mapping revenue contributions to climate mitigation and adaptation using a granular framework aligned with relevant Sustainable Development Goals (SDGs). For green, social and sustainable (GSS) bonds, we apply a separate approach. We analyze the bond's use of proceeds based on the International Capital Market Association (ICMA) categories and the EU Green Bond Standards. Allocations toward "green" categories are fully recognized as climate solutions.

A selection of examples for each category is shown below.

**International Capital Market Association (ICMA)**
The International Capital Market Association (ICMA) defines specific categories for the use of proceeds from GSS bonds, ensuring that funds are directed toward impactful projects. The ICMA outlines several climate-relevant proceeds categories under its Green Bond Principles. These categories include renewable energy, clean transportation, green buildings, climate change adaptation and climate change mitigation.

**Overview of climate solutions across categories**

| Energy generation | Technological solutions | Financial services | Mobility | Buildings | Agriculture and ecosystems |
|---|---|---|---|---|---|
| • Renewable energy generation<br>• Carbon capture and storage<br>• Renewable energy (ICMA) | • Solar energy systems and solutions<br>• Products/ components for renewable energy<br>• Construction of/services for renewable energy projects | • Financial services for renewable energy projects<br>• Green bonds/loans, impact investing<br>• Clean energy funds/ investments | • Public transport services<br>• Electric vehicles/ alternative drive vehicles and components<br>• Rail transport/ infrastructure | • Insulating materials<br>• Facility services regarding energy efficiency<br>• Green buildings (ICMA) | • Plant-based meat products<br>• Climate change adaptation (ICMA)<br>• Climate change mitigation (ICMA) |

Source: LGT Capital Partners, selected illustrative examples per category

**Allocation to climate solutions**
Over the past year, we have further developed our structured approach to identify companies within our investment universe that deliver climate solutions. This allows us to place an even stronger emphasis on the decarbonization of the real economy. While carbon budgeting is primarily aimed at reducing the operational emissions of companies, the assessment of climate solutions focuses on investments in durable products and technologies with a low carbon footprint that support the reduction of emissions

Instead of setting top-down targets, we have analyzed the potential of different asset classes and continue to steer our allocation based on compelling investment opportunities. We see the greatest potential for pure-play climate solutions in private equity, private credit and infrastructure. These asset classes have a more direct influence on portfolio companies' strategies, operations and capital allocations, which makes it easier to implement transformative climate initiatives. Further, climate solutions – whether they are focused on renewable infrastructure, energy efficiency tech, sustainable agriculture or the circular economy business model – often require several years in order for returns to materialize. The long-term investment horizon of private market investments allows the business models to mature. On the liquid side, green bonds offer another way to invest in climate solutions.

**Challenges in defining and allocating to climate solutions**
There is no universally agreed definition of climate solutions, so investors must establish their own framework. When developing our approach, it was important to create a methodology that is both robust and practical. With multiple investment teams managing assets for the LGT Endowment, we aim to ensure that each team can consistently determine whether an investment qualifies as a climate solution. Climate solutions are concentrated in a few sectors and this limits their share in the LGT Endowment due to our commitment to broad asset and sector diversification. It is important to set clear expectations with stakeholders, especially the importance assigned to maintaining the LGT Endowment's risk/return profile. Accordingly, our allocation to climate solutions remains flexible and may vary over time. We regularly review this allocation and assess opportunities based on both financial and sustainability criteria. In some instances, allocating capital to climate solutions can lead to a temporary increase in the emissions profile of the overall portfolio. For example, investing in companies that provide decarbonization technologies to emissions-intensive sectors may result in a short-term rise in reported emissions. We recognize that this dynamic is inherent to the real-world decarbonization process and we seek to capture the long-term climate impact rather than focusing solely on near-term portfolio metrics. We prioritize genuine emissions reductions across the economy to drive systemic change, even if this means accepting short-term fluctuations in the portfolio's carbon footprint.

Two examples of investments in companies providing climate solutions held in the LGT Endowment are provided on the next page.

**The role of ILS in addressing the impacts of climate change**
ILS are not yet included in the GHG measurement framework of the LGT Endowment, which we are continuing to develop. However, we recognize the positive effects of this asset class on climate mitigation and adaptation, as outlined below.

ILS focus on event-driven risks, with investors acting in a similar way to reinsurers and earning premiums in exchange for covering severe catastrophe events, such as earthquakes or hurricanes. Traditionally attractive for their low correlation to financial markets, ILS have gained additional appeal due to the EU Action Plan and Sustainable Finance Disclosure Regulation (SFDR), highlighting their sustainability benefits. The EU Taxonomy for Sustainable Finance lists non-life catastrophe insurance – our area of ILS specialization – as a sustainable activity that helps to mitigate or adapt to the impacts of climate change.

ILS investments encourage protection against climate-related perils, assigning a cost to such risks and incentivizing preventative measures, thus increasing community resilience. LGT Capital Partners has classified its ILS funds as Article 8 funds under SFDR. The investment process includes ensuring that counterparties and transactions meet SFDR requirements and pass the "do no significant harm" (DNSH) test. This test ensures that the risks covered are climate-driven and exclude businesses focused on fossil fuel production, thus supporting decarbonization and our goal to achieve net zero by 2050.

**Powering the energy transition**
The transition to a low-carbon economy relies on the rapid electrification of energy, industry and transport. Achieving this transformation requires modern, resilient infrastructure that can integrate renewable generation, manage growing demand and strengthen power networks across regions.

H&MV Engineering and Infra Group are among the companies providing the essential groundwork for this transition. Through their expertise in power networks, renewable connections and multi-utility infrastructure, they help ensure that electrification can scale efficiently and sustainably across sectors.

**H&MV Engineering** is a leading European provider of high-voltage engineering services, with a strong focus on supporting the energy transition through renewable infrastructure. The company designs and constructs substations that connect renewable energy sources such as wind and solar farms, battery storage systems and industrial facilities to national grids. Its comprehensive service offering spans from feasibility studies to commissioning and maintenance, ensuring seamless project execution. A key strength lies in its early contractor involvement model, which fosters long-term client relationships and enhances project planning and delivery. With strategic expansion into the UK and German markets, particularly in renewables and battery energy storage systems, H&MV is well-positioned to address Europe's urgent need for grid modernization. The company also integrates sustainability into its operations through tools like its in-house carbon calculator, helping clients measure and manage the environmental impact of their projects.

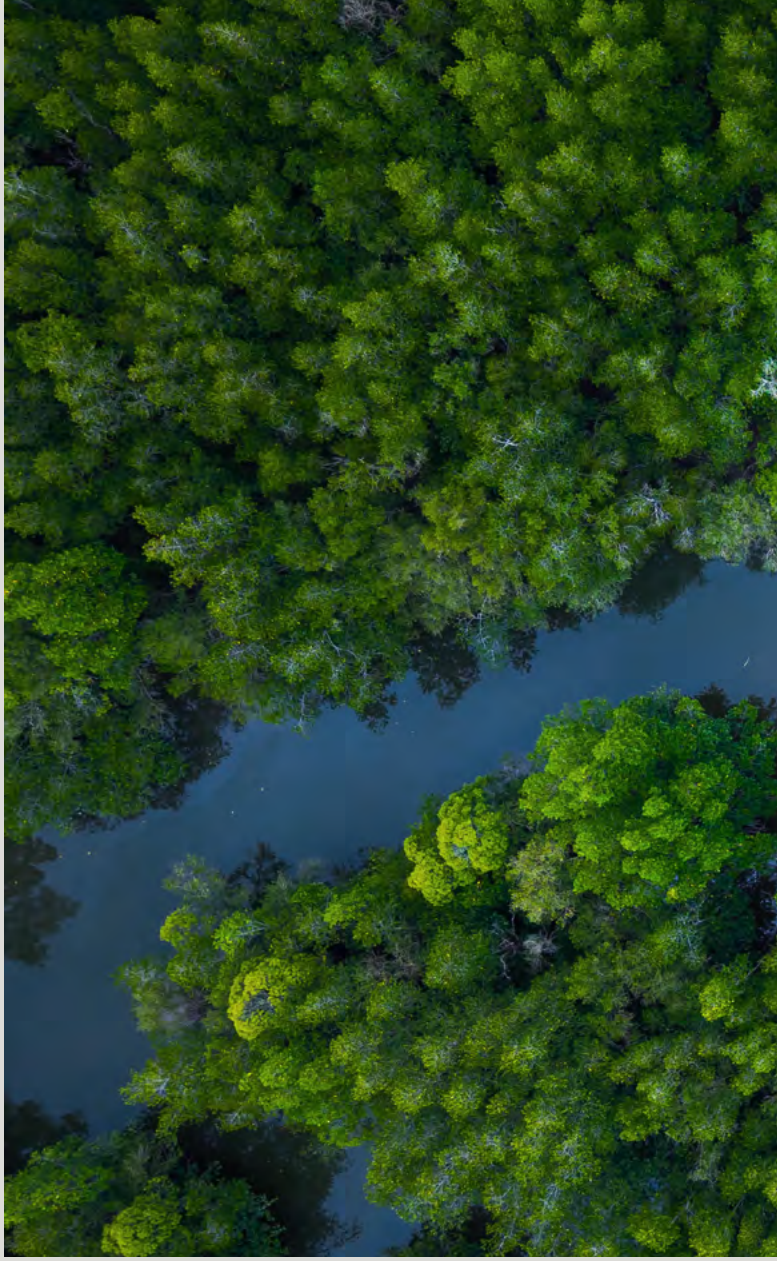
**Infra Group** is a pan-European infrastructure services provider, headquartered in Belgium and operating across Belgium, Germany, the Netherlands and France. The company plays a crucial role in enabling the transition to a net zero world by designing, installing and maintaining critical infrastructure for electricity, water, sewage, telecom and transport. Its activities are strongly aligned with climate action, with a majority of the company's revenues and orderbook comprising of activities that are eligible under the EU Taxonomy. Infra Group's work directly supports the expansion of renewable energy, electrification of public transport, smart grids, EV charging, hydrogen and $CO_2$ networks and sustainable water management, making it a key enabler of Europe's green transformation.

# Carbon credits as a climate solution

To achieve the goal 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 benefits of purchasing $CO_2$ certificates in certain situations to help achieve our climate ambition. To further accelerate our contribution to climate protection, we offer our clients access to a separate share class of the LGT Endowment that purchases high-quality carbon credits.

This share class aims to cover 100% of the residual emissions from the LGT Endowment's investments through the purchase of carbon credits. While this has no direct impact on the decarbonization of the portfolio, it nevertheless contributes to the global transition to net zero outside the value chain of our portfolio companies. The portfolio of carbon credits purchased in both voluntary and mandatory carbon markets supports the conservation of nature and the scaling-up of low-carbon and carbon removal technologies. By selecting a mix of projects, we are adhering to the Oxford Principles for carbon credits. These principles advocate transitioning from an initial broad mix of technology and nature-based solutions to long-term carbon removal projects with long-lived storage. This approach demonstrates that the evolution of our credit mix is grounded in scientific research and internationally recognized guidelines.

LGT Capital Partners has developed a science-based approach for the composition of its carbon credits portfolio, guided by the Oxford Principles for Net Zero Aligned Carbon Offsetting. The portfolio combines



voluntary and mandatory market instruments and follows a clear trajectory from avoidance to removal and from short- to long-term storage solutions. In the initial years, avoidance credits play an important role in efficiently mitigating emissions and protecting ecosystems, while the long-term goal is to increase allocations to nature-based and technological removals that provide permanent $CO_2$ storage.

**Oxford Principles for Carbon Credits**

Published by the University of Oxford in 2020, the Oxford Principles for Carbon Credits outline how to use carbon credits effectively to support net zero goals. They call for prioritizing emissions reductions within value chains, gradually shifting from avoidance to removal credits, favoring long-lived carbon storage and ensuring transparency and continual improvement in credit quality.



**Investment example: Delta Blue Carbon**
High-quality carbon credit projects can play a crucial role in complementing portfolio decarbonization by supporting real-world emission reductions and ecosystem restoration beyond the investment value chain. The Delta Blue Carbon initiative in Pakistan's Indus Delta illustrates this approach.

The project restores and conserves one of the world's largest mangrove ecosystems, which has been heavily degraded by deforestation and reduced freshwater inflows. By rejuvenating mangrove forests and tidal wetlands, the initiative is expected to sequester around 142 million tons of $CO_2$ over 60 years, averaging 2.4 million tons per year. It also enhances biodiversity, strengthens coastal resilience and supports sustainable livelihoods for local communities.

Spanning approximately 350,000 hectares, the project is certified under Verra and undergoes continuous monitoring to ensure transparency and long-term carbon storage. Its impact is considered additional, as it would not take place without financing from carbon credit sales. Delta Blue Carbon demonstrates how carefully selected projects can deliver both environmental and social co-benefits, advancing the global transition to net zero while supporting adaptation in vulnerable regions.

| | |
|---|---|
| Tons $CO_2$ | 5465 |
| Type | Blue Carbon |
| Instrument | Nature-based removal |
| Country | Pakistan |

## Lever 3: active ownership

Engagement is an integral part of the ESG framework at LGT Capital Partners. Our engagement approach varies depending on the investment style and whether we invest through managers or invest directly in securities.

**Engagement with managers**
Ongoing engagement with managers is an essential part of our approach to ESG. It is facilitated by our annual assessment of managers across asset classes, which helps to identify examples of ESG excellence and to flag areas for improvement. One focus area for manager engagements is the reduction of portfolio GHG emissions. This involves setting carbon budgets that are aligned with net zero, assessing the current status of the portfolios and collaborating on how emissions can be reduced where necessary.

**Engagement with direct investments in liquid markets**
As an active direct investor in equities and bonds, we engage in a continuous dialogue with companies in our investment universe. This dialogue allows us to express our expectations as a sustainable investor, while enabling companies to provide us with further insights into their ESG practices.

Voting in the annual general meetings of portfolio companies is an important tool that allows equity investors to voice their opinions and exercise influence. It is also a means of exerting pressure on companies by, for example, voting against their management if engagement efforts do not lead to the expected progress.

LGT Capital Partners closely follows the Socially Responsible Investing (SRI) Proxy Voting Guidelines provided by Institutional Shareholder Services Inc. (ISS). We use our voting rights to:

- Improve the level of reporting disclosures
- Align management compensation with ESG key performance indicators (KPIs) and emission targets
- Support strategic measures to accelerate or adapt to a low-carbon business model
- Support increased diversity across all levels of an organization

**SRI Proxy Voting Guidelines provided by ISS**
The Socially Responsible Investment (SRI) Proxy Voting Guidelines by Institutional Shareholder Services (ISS) are designed to help investors incorporate ESG considerations into their proxy voting decisions. They cover a wide range of topics, including:

- Environmental and social issues: addressing climate change, sustainability and social responsibility.
- Board of Directors: emphasizing diversity and accountability.
- Executive Compensation: ensuring alignment with long-term shareholder value.

The SRI International Proxy Voting Guidelines are available at: www.issgovernance.com

**Collaborative engagements**
In recent years, LGT Capital Partners has intensified its efforts to join collaborative engagement initiatives and thus work alongside other investors in cases where our engagement objectives are aligned and we believe there is a higher probability of achieving a positive outcome through such collective efforts. We participate in Climate Action 100+, Nature Action 100 and NZEI. We were recently accepted as a collaborator in the newly launched Collaborative Sovereign Engagement Initiative by the PRI for Canada. We have also joined the IIGCC engagement initiative and the private equity industry's ESG Data Convergence Initiative. For more information on our engagements, please see the "About us" section at the end of this publication.[1]

[1] Membership or signatory status to the above organizations & partnerships is specific to certain non-US LGT CP group entities and does not extend to all LGT CP group entities

## Active ownership in practice

**Collaborative engagement in public markets**
LGT Capital Partners is part of the Nature Action 100 (NA100) collaborative engagement initiative, which aims to improve corporate transparency and action on nature-related impacts. NA100 focuses on the world's largest companies that have a significant effect on biodiversity and ecosystems, encouraging enhanced disclosure and alignment with frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD).

Over the past year, we have engaged with companies Danone, which was assessed under the NA100 nature benchmark. The assessment highlighted scope to improve disclosures and Danone was open and forthcoming in the discussions that followed. Through virtual meetings and detailed questions, we aim to help the company strengthen its reporting on nature impacts, enabling improved performance in future NA100 assessments and more transparent communication with investors.

This engagement reflects our broader commitment to promoting nature-positive business practices. By supporting better disclosure and accountability, we want to facilitate informed investment decisions and encourage corporate action that protects biodiversity and natural capital.

Most recently LGT Capital Partners has been accepted as a collaborator in the federal engagement group under the PRI Sovereign Engagement initiative on climate change, a three to five year collaborative effort. The initiative aims to engage with sovereign issuers to advance climate action, improve disclosures and integrate climate considerations into public financial management. Through this engagement, investors work together to promote transparency, accountability and sustainable decision making at the sovereign level. LGT Capital Partners will contribute its expertise to support enhanced climate governance in line with our commitment to climate positive investing and to driving systemic long-term environmental impact.

**Engagement in private markets**
The availability of ESG data in private markets continues to evolve. Robust, comparable data is essential for understanding portfolio emissions and supporting informed investment decisions. We therefore engage actively with our GPs on ESG transparency, using the ESG Data Convergence Initiative (EDCI) as a key platform for collaboration.

LGT Capital Partners joined the EDCI in 2021 and has since worked closely with the initiative to promote standardized, high-quality ESG data reporting across the private equity industry. Our engagement with managers through the EDCI strengthens transparency, facilitates benchmarking and supports more effective integration of ESG data into the investment process.

In 2024, we received data from 175 managers covering more than 3,400 underlying portfolio companies. Leveraging this framework has enabled us to collect GHG emissions data more consistently and to achieve approximately 30% weighted coverage (by NAV) for Scope 1 and Scope 2 emissions across our private equity portfolios. We remain committed to expanding this coverage further to improve measurement accuracy and comparability.

In January 2025, LGT Capital Partners joined the Steering Committee of the EDCI, reinforcing our long-term commitment to advancing ESG data standards and transparency in private markets.

Scan the QR code or click on the button below to explore more




**Insights into active ownership and engagement**
For a comprehensive overview of our engagement activities, outcomes and the evolution of our active ownership strategy, scan the QR code to access the LGT Capital Partners Active Ownership Report 2024. The report features key statistics, case studies and detailed analysis of our sustainable equity and fixed income portfolios.

## Lever 4: Reallocation of capital

Reallocation of capital represents the fourth lever of our climate action framework. It enables us to adjust portfolio exposures in response to transition and physical risks while directing capital toward segments and sectors that offer sustainably positioned and climate-related investment opportunities. This lever is closely linked to our second objective of building a climate-resilient portfolio, as it translates climate insights from scenario analysis into tangible allocation decisions.

We assess the financial implications of climate change for the various asset classes and incorporate these insights into our climate-aware Capital Market Assumptions (CMAs). This systematic approach provides the analytical foundation for reallocating capital across the LGT Endowment in a way that balances risk, return and climate objectives. Over the past few years, this framework has guided a number of portfolio adjustments, as illustrated below:

- The investment buildout mentioned above drives innovation and the adoption of new technologies, which in turn boosts overall productivity. This is conducive to growth and supports our growth bias in the portfolio, with a meaningful exposure to public and private equities.

- We have observed that emerging markets tend to be more exposed to physical risks across our main and alternative scenarios, as well as in the outlier scenario. This reflects the fact that governments in these regions have fewer means to adapt and a larger proportion of the population performs manual work outdoors, among other considerations. While this has led us to maintain a cautious stance in recent years, we continuously reassess these dynamics and may increase exposure when the balance between opportunity and risk becomes more favorable. Within this allocation, we have already shifted the focus from a broad exposure with larger weights in commodity-exporting countries toward skill-based economies that offer more green opportunities for the transition to net zero.

- We maintained a dedicated allocation to resource equities with significant exposure to extractive industries for several years. However, based on our assessment of rising transition risks and the potential for stranded assets, we decided to discontinue this dedicated allocation. Consequently, we have reallocated the exposure to more service-oriented equity segments.

**Reallocation of capital as a strategic lever**
A significant portion of the levers outlined to date is aimed at advancing portfolio decarbonization through bottom-up analysis and targeted security selection. To further enhance the portfolio's resilience, a key lever lies in adjusting the weighting within the asset allocation framework. We employ a systematic, scenario-based asset allocation approach to mitigate risks and increase exposure to opportunities with favorable long-term potential. At this asset allocation level, several climate-related adjustments have already been implemented over the past few years to strengthen the portfolio's climate resilience.

We continuously reassess climate risks in our scenario analysis and incorporate new insights as they emerge. While climate considerations play a critical role, asset allocation decisions are always made in conjunction with other investment-related factors to ensure a robust overall portfolio construction.

Reallocation of capital therefore forms the bridge between decarbonization efforts at the asset level and the construction of a climate-resilient portfolio at the strategic level. It ensures that the outcomes of our scenario analysis are embedded in investment decisions, aligning risk management, return expectations and sustainability priorities. The following section provides a detailed explanation of our scenario framework for asset allocation, which underpins these reallocation decisions and supports the long-term resilience of the LGT Endowment.



# Building a climate-resilient portfolio

## Scenario framework for asset allocation

In addition to decarbonizing our portfolio, we aim to make it more climate resilient. When formulating asset allocations, we focus our analysis on the financial implications for the various asset classes, drawing on our long experience in scenario analysis and modeling. It is widely recognized that strategic asset allocation has the biggest impact on long-term investment performance. It is therefore crucial to consider ESG and climate considerations at this level of the investment process.

As outlined in the section about lever 4 of our climate action framework, the reallocation of capital is an important instrument in addressing transition and physical risks. In this section, we focus on the scenario framework that underpins such reallocation decisions and informs the strategic asset allocation of the LGT Endowment.

We pursue a two-pronged approach to integrating climate change into our scenario framework. First, we assume an orderly energy transition and contained global warming in our baseline and alternative scenarios. Second, we have formulated a stress-test scenario (climate shocks) that incorporates the significant negative implications of physical and transition risks in an environment of extreme weather events.

## Financial implications in baseline and alternative scenarios

We believe that the market implications of the transition to a low-carbon economy will depend on whether it is driven by governmental incentives or mandatory requirements with penalties and sanctions. If the transition is driven by incentives ("carrot-based approach"), governments will need to support companies in meeting the transition costs by offering subsidies and other fiscal stimuli. Conversely, if the transition relies on mandatory requirements ("stick-based approach"), private businesses will bear most of the transition costs, which are typically associated with stricter environmental standards and more stringent carbon pricing schemes.

Our baseline scenario anticipates a new capital expenditure-led cycle involving a broad-based transition. While the physical damage from global warming is increasing, it is equally important to point out that there are also positive economic effects from climate change. The pursuit of greater resilience and independence is driving and accelerating the energy transition. In addition, more frequent extreme weather events are heightening awareness of climate change among consumers, corporate leaders and policymakers, underscoring the need for increased investment in climate crisis mitigation and adaptation. All these factors combined can lead to increased investment, greater innovation and higher productivity, creating a positive growth environment and broadening the range of attractive investment opportunities.

We apply similar reasoning to other scenarios. In the New Economy 2.0, a high level of innovation in the energy sector, among others, results in lower costs and lower inflation. A stagflationary environment is driven by continued supply constraints, including those in critical metals. In the relapse scenario, secular growth stagnation slows the energy transition.

## Climate stress-scenario analysis

Our dedicated climate stress scenario (climate shocks) analysis provides a concise yet comprehensive evaluation of the multifaceted impacts of climate change. It explores the dual dimensions of immediate physical costs incurred due to extreme weather events and longer-term transition costs associated with reactive policy responses that are geared towards mitigating climate change.

In this scenario, the physical costs of extreme weather events that damage capital stock (real estate and infrastructure), destroy crop harvests and disrupt supply chains etc. mount 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 are likely to face growing 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.

## Climate-aware capital market assumptions and portfolio construction

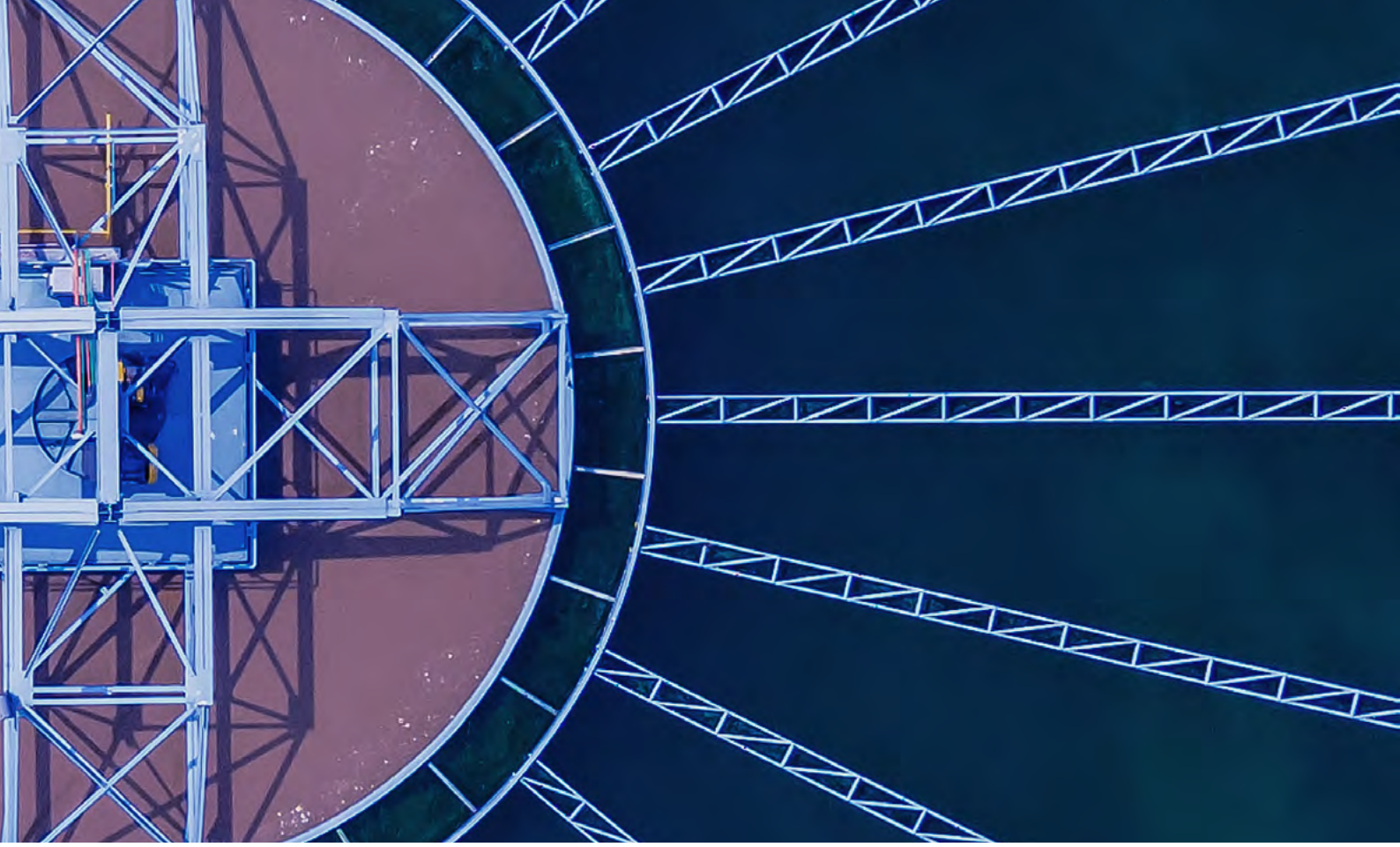
Our robust allocation approach creates portfolios that can withstand the challenges that arise during credit and market cycles and it allows us to make long-term allocation and commitment decisions. The guiding principle for the strategic allocation of the LGT Endowment is robustness, i.e. the portfolio's resilience to changing and challenging market conditions. As mentioned above, we take account of the material financial implications of climate change, among other factors, when developing our CMAs for each asset class. The maximum achievable portfolio return per scenario is then calculated, assuming perfect foresight regarding the scenario that will materialize.

The optimal allocations per scenario span an area of achievable returns (see shaded area in chart on the next page). We then design the strategic allocation to fill this space and maximize the overlap with the perfect foresight solution. In this way, we obtain an allocation that we can maintain even as economic, environmental and market conditions change from one scenario to another.

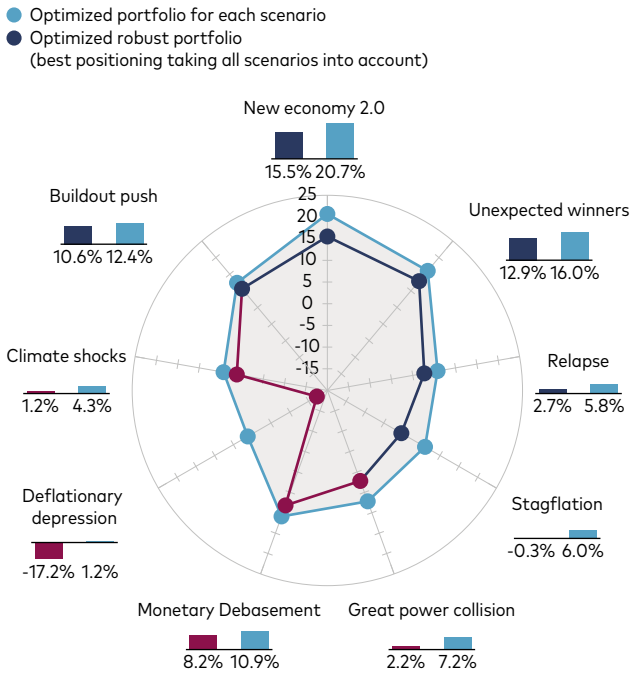
**Climate resilience scenario framework for asset allocation**

| | **Baseline** highest probability | **Alternative scenarios** medium probability | | | | **Outlier scenarios** very low probability | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Scenario (5 year time horizon)** | **Buildout push** | **New Economy 2.0** | **Unexpected Winners** | **Relapse** | **Stagflation** | **Great power collision** | **Monetary debasement** | **Deflationary depression** | **Climate shocks** |
| | Energy transformation, pursuit of resilience and digital adoption push a rise in capital investment | Technological innovation and adoption ensure largely inflation-free growth | Revival of "dormant" economies with strong institutions and industry base (like EU and JP, selected EM) | Back to the old low growth, low inflation environment as debt burden weighs in | Inflation remains volatile and entrenches, undermining economic growth | Hard decoupling of China's and the US' economy and financial markets | Loss of confidence in fiat money leads to runaway inflation | Debt defaults, deflation and recessions dominate | Physical damage triggers late, but strong policy response and raises transition costs |
| | ▼ | | | | | | | | ▼ |
| | • Environment with large-scale investments in energy transition<br>• Physical damages grow, heighten awareness to act stronger on climate<br>• Greater innovation and productivity support solid economic growth<br>• Higher expected returns, focus on equity investments and real assets | | | | | • Environment with severe weather events and drastic policy reaction<br>• Sudden repricing of financial assets, most negative for real assets<br>• Identify most vulnerable asset classes and manage exposure<br>• Decarbonization as effective way to redcue portfolio climate risks | | | |

Source: LGT Capital Partners
This data is purely indicative and is not a guarantee of future results. The outline here focuses on a long-term growth portfolio. Scenario-specific portfolios as well as the robust portfolio are dependent on the investors' time horizon, risk aversion and permissible asset classes.



### Return expectations in different scenarios (illustrative example)




Source: LGT Capital Partners
Data as of 31 December 2024. Risk/return figures shown above are LGT expectations. The calculation is based on a time horizon of approximately 5 years (2025 – 2030). Returns may increase or decrease as a result of currency fluctuations. Fees and other costs will reduce the performance to the investor. This data is purely indicative and is not a guarantee of future results. Forecasts are not a reliable indicator of future performance. The effective result may vary. The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies and/or current market conditions and are not an exact indicator. What you will get will vary depending on how the market performs and how long you keep the investment/ product. An investment may lead to a financial loss.

**Robust portfolio construction approach**

Our findings indicate a manageable exposure to physical risks, as the LGT Endowment does not hold concentrated risk positions in vulnerable asset classes. However, transition risks – the costs associated with having to abruptly adjust business models and energy inputs – are more meaningful and are spread across multiple asset classes. 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.

The analyses described are primarily focused on the implications of climate change at the asset class level. We are also in the process of collecting and processing further bottom-up data to allow us to provide more granular insights into climate risks.

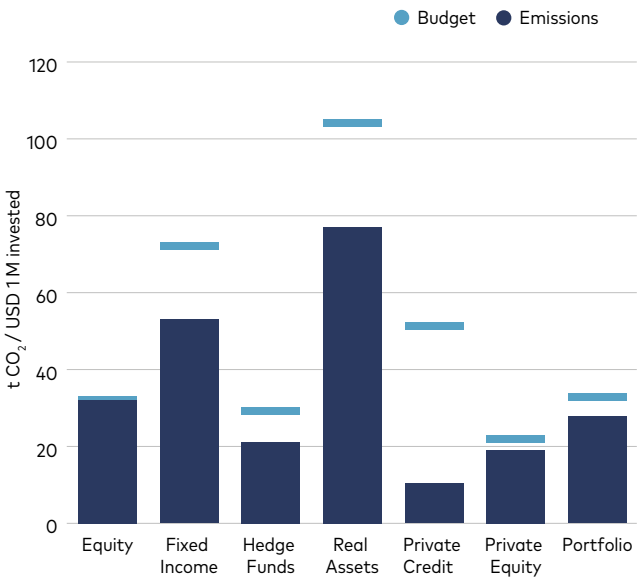
# Measuring progress and next steps

Since announcing our commitment to align the LGT Endowment with the goal of reaching net zero by 2050, we have made progress towards this goal by significantly reducing the emissions intensity of the portfolio, as explained below. Key insights from the implementation of the climate action framework and planned actions for the coming years are also outlined in this section.

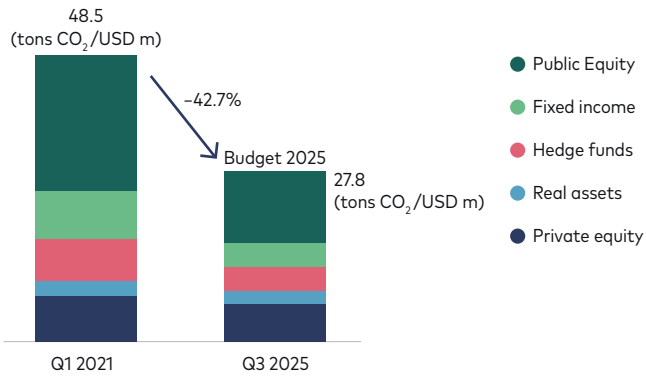
**Reducing the carbon footprint of the LGT Endowment**
As a result of consistent efforts across all asset classes, we have been able to reduce the emissions intensity of the LGT Endowment from 48.5 tons to 27.8 tons of CO2eq per million USD invested since making our initial commitment to net zero by 2050 in the first quarter of 2021. This represents a 42.7% reduction in the carbon footprint of the LGT Endowment (see chart below) and brings the portfolio to a level that is currently more than 19.2% below the Paris-aligned emissions budget for 2025. The main part of the emissions reduction was achieved by shifting exposures towards more energy-efficient companies, mainly within liquid market segments such as public equities, fixed income and hedge funds.

**Tons of $CO_2$eq per million USD invested**
"Tons of $CO_2$ equivalent per million USD invested" is a metric used to assess the carbon efficiency of an investment. It measures the amount of greenhouse gas emissions, expressed as $CO_2$ equivalents for every million dollars invested in a portfolio. $CO_2$ equivalent ($CO_2$e) is a metric used to compare the global warming potential of various GHG by expressing their impact in terms of the amount of $CO_2$ that would have the same effect on climate change.

**The LGT Endowment's carbon footprint and budget alignment per asset class**




**Emission intensity reduction in LGT Endowment**




Source: LGT Capital Partners

The previous chart clearly demonstrates that both the overall portfolio (right-hand bar) and the underlying asset classes are net zero aligned. It is also evident that the respective budgets differ. This variation is driven by our sector decarbonization approach, which considers the industry allocation of each asset class and adjusts the budget accordingly. For example, the budget for fixed income is much higher than for equities because sectors where higher carbon footprints are more prevalent in the high-yield space. Consequently, the pathway towards net zero is steeper in this area. The private equity allocation slightly exceeds the budget because we are, to a large extent, not reallocating historical vintages of the invested portfolio. Going forward, we will strive for alignment as emissions are considered for new investments and underlying portfolio companies are encouraged to continue their decarbonization efforts.

**Emissions by asset class**

| Asset class 30/06/2025 | Current allocation | Coverage[1] | Emissions budget | Current emissions |
|---|---|---|---|---|
| **Equity** | **29.5%** | **101.5%** | **32.0** | **30.1** |
| Equity global defensive | 5.0% | 98.7% | 28.2 | 11.0 |
| Developed market equities | 20.5% | 102.1% | 28.3 | 24.4 |
| Emerging market equities | 4.0% | 102.1% | 55.2 | 81.7 |
| **Fixed income** | **14.1%** | **23.3%** | **71.3** | **53.0** |
| Investment grade bonds | 4.0% | 18.7% | 43.2 | 27.5 |
| High yield bonds | 2.1% | 100.9% | 83.2 | 58.7 |
| Emerging market bonds | 8.0% | 6.4% | 62.5 | 65.0 |
| **Insurance-linked strategies (ILS)** | **5.7%** | **0.0%** | **n/a** | **n/a** |
| **Hedge funds** | **17.9%** | **62.2%** | **30.5** | **21.2** |
| Systematic strategies | 8.9% | 39.5% | 30.5 | 0.7 |
| Discretionary strategies | 9.0% | 89.7% | 30.5 | 33.6 |
| **Real assets** | **6.5%** | **47.8%** | **105.9** | **77.0** |
| Real estate | 4.1% | 17.2% | 4.2 | 8.9 |
| Infrastructure | 2.4% | 99.9% | 135.6 | 96.9 |
| **Private credit** | **8.7%** | **16.7%** | **52.3** | **10.4** |
| **Private equity** | **21.8%** | **99.5%** | **22.8** | **19.0** |
| Cash, overlays, fees, residual | -4.1% | 0.0% | n/a | n/a |
| **Portfolio** | **100.0%** | **73.5%** | **34.3** | **27.8** |

Source: LGT Capital Partners

## Measurement coverage

To complement this decarbonization progress, we continuously track emissions across the portfolio using the ESG Cockpit. The chart below illustrates the current measurement coverage by asset class as of June 2025. This breakdown highlights where comprehensive emissions data are already available and where measurement frameworks are still evolving. A detailed explanation of our methodology and data sources can be found in the "Methodology for measurement and coverage of emissions" section.

## Insights and critical success factors

When we initially developed the climate action framework, it was designed to be robust and to maximize the effectiveness of our levers. We have since continued to refine and enhance the framework. The core principles behind the framework are as follows:

- Create a comprehensive framework that incorporates double materiality considerations, with clear goals for measuring progress and identifying gaps.
- Missing data and/or methodologies are no excuse for inaction. Begin with a solid initial framework, even if it requires the use of proxies. Based on this approach, it is then possible to gather insights and engage in discussions with portfolio managers.
- Use proven tools that provide control over assumptions and data, such as the ESG Cockpit and our framework for scenario analysis.
- Implement an interdisciplinary ESG governance model. Climate action should be considered in all investment decisions and embedded across the organization.
- Apply a robust decarbonization strategy (in our case: carbon budgeting) with strict decarbonization targets while remaining flexible in order to capture new opportunities. Avoid or manage unintended biases and do not exclude firms from the investment universe if they have credible transition plans.
- When conducting scenario analysis to assess financial implications, distinguish between baseline/alternative scenarios for portfolio construction and outlier scenarios for stress testing.
- Systematically measure and monitor progress across the full multi-asset spectrum to identify gaps and focus engagement efforts in a more targeted manner.

[1] Coverage for emissions is defined as percentage of the respective asset class where LGT Capital Partners has an assessment framework and/or data available to determine emissions. Coverage can exceed 100% due to leverage of the underlying fund.

Our experience of adhering to these principles has been positive to date. However, the implementation of a robust climate action framework requires a high level of commitment at every level of the organization and considerable engagement by all stakeholders.

## Outlook

We have made substantial progress in implementing our climate action framework for the LGT Endowment and a broad range of other investment strategies. With the global economy expected to continue expanding, we anticipate a sustained increase in energy demand and the potential emergence of new climate-related challenges.

We aim to further reduce our portfolios' carbon footprint in line with our carbon budgeting approach. However, we also recognize that meaningful progress toward decarbonization depends on the broader economy's transition. Without a wider shift toward low-carbon production and energy systems, the investable universe could become increasingly narrow, creating additional challenges for maintaining diversification across industries.

Our macroeconomic scenario analysis suggests that we will continue to face persistent geopolitical uncertainty and intermittent spikes in market volatility. This means that the process of decarbonization and adaptation will not be smooth or linear and may, at times, affect both portfolio performance and broader market dynamics. Research also shows the importance of closely monitoring different transition scenarios, as climate pathways and regulatory frameworks are likely to evolve over time. Accordingly, we expect to adapt our methodologies and guidelines as new evidence and standards emerge.

Despite these anticipated headwinds, we remain confident that our disciplined climate action framework – supported by a range of strategic levers and a long-term investment horizon – positions us well to navigate these challenges and to achieve our goal of net zero by 2050.

# About us

LGT Capital Partners is a global specialist in alternative investing offering a wide range of investment programs focusing on private markets, multi-alternatives and diversifying strategies, as well as sustainable and impact strategies. The core team began investing in private markets in 1997 and in November 2000, they founded LGT Capital Partners, based in Pfaeffikon, Switzerland. The founding team continues to be a key part of the firm's senior management today, ensuring stability and consistency in our culture and approach.

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

LGT Capital Partners has been a signatory to the Principles for Responsible Investment (PRI) since 2008. In 2018, Tycho Sneyers, a managing partner and chairman of the firm's ESG Committee, joined the PRI board of directors. LGT Capital Partners also participates in various other initiatives such as the Net Zero Asset Managers initiative, the Institutional Investors Group on Climate Change (IIGCC), Climate Action 100+, the ESG Data Convergence Project, GIIN, the European Sustainable Investment Forum (Eurosif), Nature Action 100, the Net Zero Engagement Initiative as well as PRI Advance, the largest social stewardship initiative.[1]

[1] Membership or signatory status to the above organizations & partnerships is specific to certain non-US LGT CP group entities and does not extend to all LGT CP group entities

# Acronyms used in this paper

| | |
|---|---|
| **CMAs** | Capital Market Assumptions |
| **$CO_2$** | carbon dioxide |
| **$CO_2eq$** | carbon dioxide equivalent |
| **DNSH** | Do No Significant Harm |
| **EDCI** | ESG Data Convergence Initiative |
| **ESG** | Environmental, Social and Governance |
| **EU** | European Union |
| **GHG** | greenhouse gas |
| **GSS** | green, social and sustainable (bonds) |
| **GP** | General Partner |
| **ICMA** | International Capital Market Association |
| **IEA** | International Energy Agency |
| **IIGCC** | Institutional Investors Group on Climate Change |
| **ILS** | insurance-linked strategies |
| **ISS** | Institutional Shareholder Services |
| **KPI** | key performance indicator |
| **LP** | Limited Partner |
| **NAV** | net asset value |
| **NA100** | Nature Action 100 |
| **NZAM** | Net Zero Asset Managers initiative |
| **NZE** | Net Zero Emissions (IEA NZE 2050 scenario) |
| **NZEI** | Net Zero Engagement Initiative |
| **NZIF** | Net Zero Investment Framework (IIGCC) |
| **SDGs** | Sustainable Development Goals |
| **SFDR** | Sustainable Finance Disclosure Regulation |
| **TCFD** | Task Force on Climate-related Financial Disclosures |
| **TNFD** | Taskforce on Nature-related Financial Disclosures |

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**ESG disclosures**

The strategies mentioned in this document, are considered to be aligned with Art. 8 or 9 strategies under EU 2019/2088, but do not have carbon reductions as their objective. They do not attain their portion of sustainable investment, if applicable, in the manner prescribed in Article 9(3) of such regulation. Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, these strategies present disproportionate communication on the consideration of nonfinancial criteria in their investment policy. Further, it is considered that the names of these strategies are disproportionate to the AMF's consideration of non-financial criteria. The "do no significant harm" principle applies only to those investments underlying the strategy that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities. For all other strategies mentioned in this document, investors should note the Investment Manager's assessment of ESG characteristics may change over time and the ESG conclusions of the Investment Manager might not reflect the ESG views of investors. There is no guarantee that a company meets the expectations in relation to ESG. LGT CP integrates an assessment of Sustainability Risks into its investment processes. The results of this assessment and the potential impact on returns may vary. LGT CP or the appointed manager may rely on third-party ESG data or research providers to produce any ESGrelated analysis. Such data or research may be imprecise, incorrect or unavailable and the resulting analysis may be impacted. It is considered that the policies adopted to assess and mitigate Sustainability Risks may mitigate such risks to the strategy. The investments underlying the strategy do not take into account the EU criteria for environmentally sustainable economic activities. Further details on ESG integration and sustainability-related stewardship can be found on lgtcp.com.

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