



Wealth
Management

Sustainable positioning

Understanding the thinking behind our portfolios



| Forward-looking
for generations



Cover image
Bauer brothers, Hortus Botanicus, detail from
"Lilium candidum L.", c. 1778.
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Introduction

Dear Client,

When we created the LGT Wealth Management sustainable investing proposition, the sustainable investing landscape looked very different to the one we see today. Awareness about the long-term sustainability of our planet was not headline news, the priority of mainstream political parties or part of the conversation in boardrooms. This was also reflected in the investment world.

Today, there are thousands more investment offerings, funds and portfolios designed for those that want to align their wealth with long term principles of the sustainability of our planet and its people. However, as the industry has mushroomed in size, the variance in quality of sustainable investment solutions available for clients has grown with it.

At the heart of our process is rigorous analysis and a holistic assessment of the sustainability of an investment opportunity. We look to understand the intentionality of an investment to sustainable long-term change, how integrated sustainability factors are within that investment opportunity and the impact it is having, both positive and negative. We do this through proprietary research on the opportunities we invest in for clients, both qualitatively by dedicated sustainable research teams, and quantitatively through our proprietary data tool which incorporates a number of sustainable data providers.

There are many topics that are integral to the consideration of sustainability within investing. By being transparent in our approach to these topics, we allow our clients to gain a clearer understanding of our decision-making process. The interconnectivity of sustainability and contemporary business operations can make the evaluation of sustainable business practices challenging, and it is often not clear-cut. Issues like supply chain transparency, lack of data and data lag can mean some items may be hidden or not based on the latest assessment. Ultimately, we are aware that the degree of certainty can be dictated by the availability of information.

Our commitment to continually evolving our approach is core to our sustainable investing philosophy. To do this, we will continue to ensure that we have the reach and resources to be able to incorporate new findings. Our processes are specifically designed to be able to adapt to them and, correspondingly, this guide will be updated to reflect them.



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Phoebe Stone
Partner and Head of Sustainable Investing

We remain high conviction investors in the shift towards a more sustainable, long-term economic model, whilst emphasising the need for a “just” transition that puts people at the heart of this change.

A handwritten signature in black ink, appearing to read 'Phoebe Stone'.

Phoebe Stone
Partner and Head of Sustainable Investing

The sustainable journey

Tackling the issues that our global community faces is one of the key responsibilities of all businesses, across all industries.

We believe that financial markets play an integral role in the global transition towards a more sustainable future for our society and the environment. Investors are in a powerful position to be able to allocate capital to businesses that are prioritising sustainability, and their ability to effect change through stewardship activity.

As a steward of our clients' capital, we consider sustainability risks, including climate risks and financial and investment risk factors. The substantial social, environmental and economic impacts of climate change will be borne by current and future generations. Companies that fail to adapt to the changing environment are likely to come under pressure in various ways, including pressure from clients and other stakeholders, financing pressures and pressure through government measures such as higher taxes and sanctions.

For a number of our clients, sustainability needs to be considered as more than just one of a number of risk factors when assessing an investment. For those clients, sustainability considerations need to hold the same weight as traditional investment risk factors. In order to deliver our sustainable investment service to clients, we implement a best-in-class approach, in which we look to allocate capital to businesses that are driving real change. It is important to point out that we recognise that no business is perfect, and neither is any portfolio. Just as we are, all companies are on a journey.

As we outline our approach to Sustainable Positioning in the following pages, we aim to provide detailed commentary on a number of revenue and thematic exposures that are areas of interest to our

clients and considerations for us as part of the sustainable investing community.

An analytical approach

To deliver a high quality approach to sustainable investing, we have developed proprietary sustainable analysis technology in order to leverage the vast quantity of sustainability data available to us. This enables us to gain a 360 understanding of how a company operates from a sustainable perspective. Our technology can analyse a company's revenue exposure, its operational sustainability profile as well as the environmental and societal impact of the company's activities.

Revenue exposure

We can identify if a company is involved in specific activity that, for sustainability reasons, investors would want to avoid. Sectors include but are not limited to:

- Production and sale of tobacco
- Weapons
- Extraction and production of fossil fuels
- Gambling
- Controversial weapons.

Figures are stated as a proportion of revenue of the business. Sometimes the company does not publish a breakdown of its revenue contribution by activity, so this information needs to be assessed by a specialist.

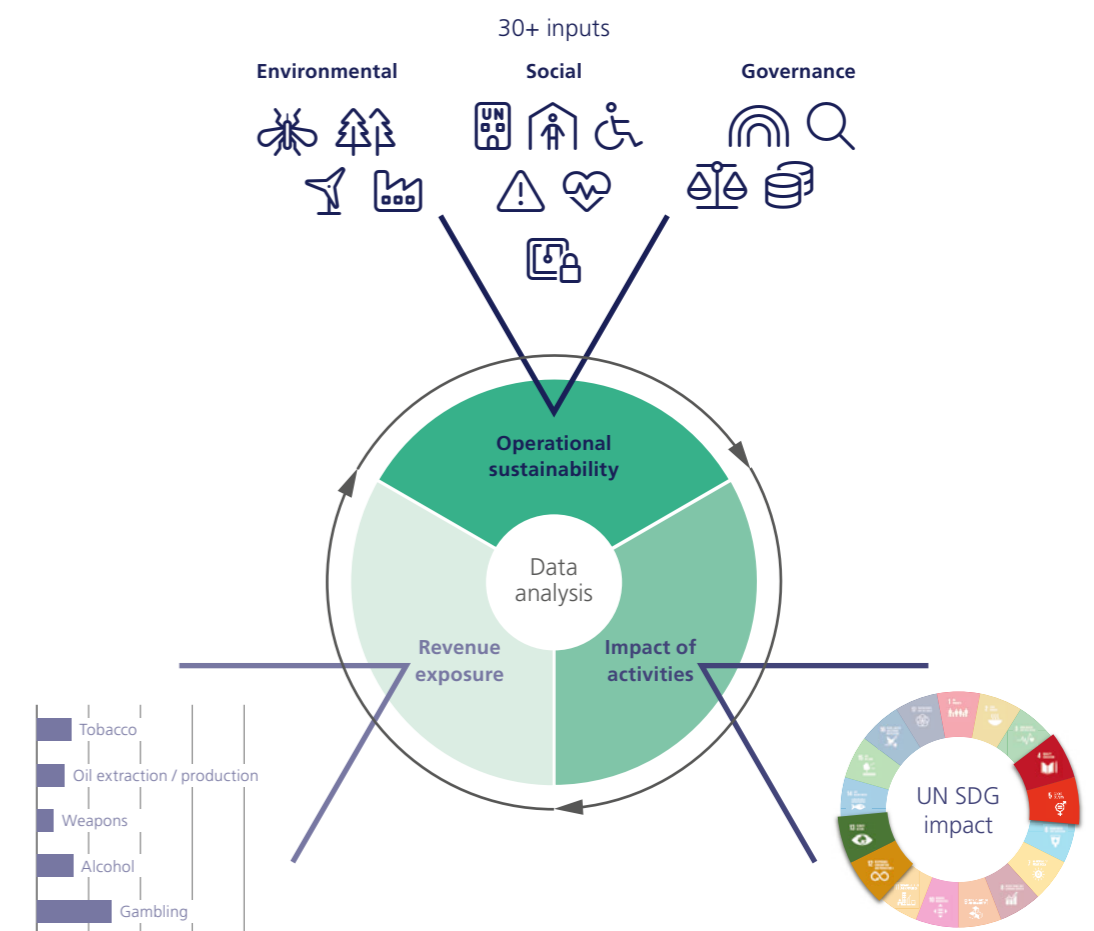
Whilst the revenue exposure is only one consideration when looking at a company's overall sustainability profile, it is an important one that we ensure is monitored.

Impact of activities

An assessment of a company's net impact on the environment and society is an extremely complex undertaking. Within the analysis we undertake on every company as part of our investment process, we

assess a company's revenue contribution to the UN Sustainable Development Goals. This analysis enables us to understand the net impact of a company's activities based on the goods and services sold.

Viewing a company through a 360 sustainable lens



Revenue exposures

We apply the following exclusionary screens on companies deriving revenue from activities which are deemed controversial based on international standards and values. Therefore, any company involved in generating a revenue from one of the below activities will be excluded from our sustainable portfolios. This is the case for direct holdings in portfolios, but also underlying holdings of third-party funds that are held in our sustainable portfolios. We screen the portfolios on a monthly basis to ensure that this is regularly upheld.



Adult entertainment

There are very few publicly listed companies that are dedicated to pornography or some other aspect of the sex industry. Those companies that do derive a significant proportion of their revenue from the production and/or dissemination of pornographic material are usually unlisted companies that operate entirely over the internet. We monitor exposure to adult entertainment on an ongoing basis.

Alcohol

Overconsumption or excessive usage of alcohol can have harmful health and socioeconomic consequences. Furthermore, these impact individuals and society, from health factors of those who overconsume, to the tragic road traffic deaths of others. For these reasons, we do not invest in companies that derive more than 5% of revenue from alcohol production and manufacturing. We also do not invest in businesses that earn more than 25% of revenue from the sale of alcohol (i.e. bars, restaurants).

Defence

Since the start of 2012, LGT has excluded companies that are involved in the manufacture and sale of controversial weapons from our investment universe. The term controversial weapons refers to military weapons that either cause combatants disproportionate suffering or that if used, result in a large number of innocent victims, especially civilian victims. The majority of these weapons are banned or prohibited under international treaties, meaning that manufacturing or using them is illegal in many countries. Companies that are involved in the manufacture, storage and delivery of controversial weapons, such as atomic weapons, land mines, cluster bombs and cluster munitions, as well as biological and chemical weapons are excluded, with a 0.1% revenue threshold applied.

Gambling

Casinos and betting shops have been involved in money laundering scandals, and often target vulnerable groups with aggressive marketing. We actively screen and monitor companies that earn more than 5% of their revenues from gambling activities.

Tobacco

Tobacco has proven to contribute to serious health problems, including cancer and heart disease, and kills more than 8 million people each year. We exclude companies with revenues over 0.1% derived from the production of tobacco or with revenues of 10% derived from the distribution of tobacco.¹

Thermal coal

In order to achieve the goal set out in the Paris Agreement to limit global warming to 2°Celsius or less, it is imperative that a shift away from coal takes place. We firmly believe that the energy transition, from fossil fuels to renewable energies, is of utmost importance to mitigate climate change. Coal-based electricity generation is already today not compatible with a scenario that limits global warming to 2°Celsius or less. From 1 February 2020, LGT started excluding companies that are involved in mining coal that is used in energy production. Utilities with a high carbon intensity are also excluded from LGT's investment universe. Companies involved in mining thermal

coal will be excluded if the contribution to revenues generated through thermal coal activities exceeds 5% of their total revenues, or if they are responsible for more than 1% of global annual thermal coal production.

Utilities with significant exposure to electric power production (defined as deriving more than 20% of their revenues from electric power generation) are excluded if their average carbon intensity is above 354g CO₂ / kWh for 2022. This ceiling will be lowered every year and will be 197g CO₂ / kWh by 2030 and zero by around 2060, thus following the carbon intensity trajectory used by the International Energy Agency (IEA).²

LGT uses data from MSCI ESG Research and IEA, specialised third-parties, to determine which companies are to be excluded based on the criteria described above. This is reviewed and updated semi-annually.

¹ Using Morningstar data.

² IEA Coal Information 2018. Rolling three-year averages are used for global coal production figures.

Thematic exposures

Sustainable investing does not solely focus on a company's revenue-attributable activity, but also the sector in which the business operates in, the associated supply chain and the impacts on our planet and its people. The sustainable portfolios we run look specifically to allocate our clients' capital to megatrends, such as the shift to a low carbon economy and sub-themes which support the transition. We look especially to avoid those sectors or companies with associated supply chains which are deterrents to these trends. We approach each area of thematic exposure through an individual lens, as the factors of consideration differ for each.

Agriculture

At present, mass-scale agricultural practices are the biggest source of land depletion and pesticides used to grow crops are increasingly being identified as related to incidents of dermatological diseases, cancer and reproductive disorders. However, the role for mass-scale agriculture will continue to increase to meet the needs of growing populations. This will continue to intensify, as severe weather pattern changes associated with climate change reduce the areas that are viable for agricultural use. As the world looks to reduce emissions to align with net zero, the challenges of animal protein production are becoming more evident: cattle farming produces about 40% of the annual methane budget (a gas signifi-

cantly more potent than carbon dioxide) and anti-microbial resistance. We are also cognisant of the social issues occurring within agricultural supply chains. Workers tend to be employed seasonally and for low pay in often hazardous environments, others may be victims of forced labour. We look to address some of these major challenges through investments in innovation around alternative protein sources, seed engineering and precision farming. We prefer to invest in solutions that benefit small scale farmers who have more sustainable practices around their use of natural resources and protection of biodiversity, as well as a wider variety of key nutrients in their agricultural results.³

Investment opportunities



Biodiversity boost

- Soil protected
- Replacement pesticides



Reduced GHG emissions

- Animals given natural additive to feed
- Protein alternatives
- Plant-based dairy alternatives



Healthier food

- Animals treated naturally



Farmers empowered

- Wealth distribution and economic balance

Biodiversity

From an investment analysis perspective, biodiversity is incredibly difficult to analyse due to the interconnectivity of ecosystems and their dependencies. Businesses don't tend to measure their impact on biodiversity, meaning the data sets are limited and the gulf between how scientists measure the abundance of species and investor metrics is still prominent. Our in-house sustainability tool considers biodiversity through a company's exposure to biodiversity and land use risk within the environmental pillar of the ESG assessment. This exposure covers the adverse biodiversity impact of the company by measuring the number of lost/reduced species from their business operations, as well as any land devaluation and contamination. The extent to which a company's operations are in regions that have fragile ecosystems, and how likely these operations are to degrade them further is also measured. We will continue to develop our tool as new data arises, we will also undertake engagement with companies through our partnership with Nature Action 100, an investor group focused on improving biodiversity through corporate engagement.



68% between 1970 and 2016

The average decrease in populations of mammals, birds, amphibians, reptiles and fish⁴



1.6 Earths

The ecological resources we use⁵

Fisheries and aquaculture

Wild fisheries are increasingly overexploited, presenting a major challenge in our ability to manage a resource in decline, whilst competing with increased demand for food production. Fishing trawlers cast large nets, which by design end up catching unwanted fish, dolphins, turtles and other sea creatures with no market value. In addition to bycatch, the vessels end up destabilising the seafloor, causing damage to coral reefs and destroying marine life. As natural fish levels decline, the role for aquaculture is likely to be seen as a way to meet global demand for protein and nutritious foods, whilst protecting the world's largest sink – the ocean. Aquaculture also includes the farming of algae, for usage beyond just food sources, such as certain species of microalgae which have been shown to efficiently remove CO₂ from the air, at rates 10-50 times higher than trees.



However, as a naturally resource intensive operation, companies operating in this area are subject to high scrutiny around waste and pollution, animal treatment and food safety. We use our screening tool to review key metrics on GHG emissions (scope 1, 2 and 3), biodiversity loss as well as collecting information on certifications held by the operators to assess how the companies compare to their peers in the sector.

³ IPCC, Special Report on Climate Change and Land, CH04, [www.ipcc.ch/srcccl/chapter/chapter-4/National Geographic](http://www.ipcc.ch/srcccl/chapter/chapter-4/National%20Geographic), www.nationalgeographic.com/environment/article/methane

⁴ Living Planet Report 2020

⁵ Global Footprint Network



Forestry and deforestation

Forests cover 30% of the Earth's surface, providing vital habitats for millions of species, as well as important sources for clean air and water. 13 million hectares of forests, an area equivalent to the size of England, are lost every single year. We recognise the importance of forestry in providing natural carbon sinks and conserving biodiversity. We look to mitigate our impact on deforestation through our holdings in secondary users of rainforests: soy production, cocoa, tea, cattle rearing and palm oil production. The agricultural and food and beverage sectors are some of the most detrimental to the rainforest, responsible for 73% of deforestation worldwide, but also highly dependent on its health. We actively look to limit our exposure to businesses that benefit from deforestation, allocating instead to businesses that have commitments such as zero-deforestation supply chains and are signatories to the Roundtable on Sustainable Palm Oil Sourcing. When reviewing our investments, we exclude companies involved in illegal logging or illegal fires including usage for land clearance due to the uncontrollable level of wildfires and health effects of smog associated with them. Equally we recognise the impact deforestation has on indigenous communities and seek to actively review any controversies relating to these topics.

Palm oil

The manufacturing of palm oil is one of the key factors in deforestation and palm oil can be found in close to 50% of packaged products sold in supermarkets. An encouraging number of companies have made the commitment to source palm oil sustainably, but with a vast and complex supply chain, palm

oil supply is difficult to trace and certify. The demand for palm oil has led to the proliferation of plantations in Indonesia and Malaysia, but often at the expense of local ecosystems, with forests burned to obtain land, resulting in smog pollution and rising levels of CO₂. Other controversial elements of the process include the labour force and their treatment, often with harsh working conditions and low pay. However, withdrawing from palm oil is not a viable solution and given the high yield of the product and a growing global population, sustainable palm oil can provide significant benefits. Where we invest in companies that use palm oil, we would look for companies that are certified members of the Roundtable on Sustainable Palm Oil. Companies should also ensure that their supply chains respect the principles associated with responsible sourcing, such as ensuring no areas of natural forest are cleared, protecting peatlands and Cultural Heritage Sites.

Indigenous people

Across the globe, resource extraction and development has had significant impacts on Indigenous People and their territories. Across the board, governments and states have been slow to respond. The mining and resource extraction sectors are most often associated with the displacement of indigenous populations, due to the location of the metals and minerals. We expect environmental and social risk assessments to be undertaken by businesses before projects start and throughout their life cycle. When interacting with indigenous populations, businesses should be collating information on incidents and sentiment of local populations. We are able to access controversy analysis for companies relating to discrimination or relocation of indigenous people.

Chemicals (including pesticides)


We recognise that in order to achieve SDG 2 on Zero Hunger, it will be critical to upscale farming practices and the fair distribution of crops and food. Additionally, we are ever more aware of the effects of chemicals and pesticides on the environment and biodiversity. Our in-house sustainable rating tool measures data points on water stress, pollution and waste management, as well as land use risks and product toxicity. Within the sustainable portfolios that we run for clients, we invest in companies that are actively reducing the use of harmful chemicals in lieu of precision farming, and seed engineering.

Animal rights


In many regions of the world, including the UK and EU, it is illegal to use animals in research where there is a practical alternative. However, it is also the case that new drugs and products must be tested on animals before humans to avoid adverse health implications. New medicines require testing on animals because researchers must measure both the beneficial and harmful effects of a compound on a whole organism and not just in vitro (test tube) and isolated organs. A vital consideration when contextualising the use of animal testing is that if animals are not well-treated, the results produced by the testing is not considered trustworthy and cannot be replicated. This highlights the importance of animal welfare when conducting scientific testing on animals.

The '3 Rs' framework for animal testing has been developed in recent decades, as we have gained a greater understanding of the cognitive complexity of animals and their ability to feel pain and distress. The 3 Rs are the minimum baseline we would expect companies held in the portfolio to be utilising in the event that they are testing products on animals.


Outside of testing for medical purposes, there are certain ingredients contained in products that will be used by humans (such as sanitation and cleaning



Replace
Finding new ways to perform tests without the need for animal models



Reduce
Seek to minimise the number of animals used in experimentation



Refine
Aims to minimise the potential suffering, pain and distress of the animals during testing

products), that will also be tested on animals. Finally, there are certain regions of the world that require all ingredients that will be used in cosmetic products to be tested on animals before they can be used by humans. However, large companies like Unilever have partnerships with PETA, demonstrating the positive work within the animal welfare space. We have also joined FAIRR, the Farm Animal Investment Risk and Return initiative to continue to build our database on the risks faced in the animal proteins sector, ensuring we have adequate information on risks like anti-microbial resistance, pandemics as well as the environmental footprint associated with animal farming.

Fur

Fur farming has been illegal in the UK since 2000. Due to pressure from animal rights activists and breakthroughs in the production of fake fur alternatives, the case for holding companies involved in fur within sustainable portfolios is practically non-existent. As such, our proprietary tool screens for any companies that derive any revenues from the production and/or sale of fur products. The screen includes those companies that raise, trap or slaughter animals for their fur, as well as those who derive revenue from products made from, or incorporating fur, from coats to hats to craft supplies.

Cannabis

As long as recreational cannabis remains an illegal activity in the UK, any considerations in this area will not be deemed investable. We will proceed cautiously with regard to cannabis linked businesses and effective since 2019, we have an embargo on any cannabis trades following the UK National Crime Agency's (NCA) clear position. We do, however, recognise the growth in interest by regulatory bodies and the medical field in medical grade cannabidiol, as products have been recognised as effective in alleviating the symptoms of certain diseases. We would hold any potential investments to the same high scrutiny and regulation as typical pharmaceutical companies in terms of their marketing and distribution.

Opioids

We recognise the role of pharmaceutical companies in the Opioid crisis, which is especially severe in certain American states. We face a difficult trade-off when investing in pharmaceuticals, as we see considerable positive social and health outcomes related to the provision of key medication and treatments. Through our process, we carefully analyse a company's track record in marketing and distributing these products. This includes the number of litigation claims faced, false advertising of benefits and failure to disclose risks of dependence, adequate pricing, off-label promotions, and the demographics of drug users. We utilise controversy data to examine these factors by looking at data points like number of lawsuits, market share held by manufacturers, as well as exposure to manufacturing of the most common opioid pills, oxycodone and hydrocodone. Whilst we regularly review these data points, we also acknowledge the difficulty of holding pharmaceutical companies to account due to specific legal nuances and strong lobbying practices, similar to those experienced in the tobacco industry a decade ago.

Genomics (human embryology included)

Genomics is the study of genes and DNA sequencing. It has led to a huge number of medical discoveries and breakthroughs, including the development of COVID-19 mRNA vaccines and cancer treatment. In the UK, we have multiple laws (the Human Fertilisation and Embryology Act of 1990, Human Reproductive Cloning Act of 2001) which govern the ethics of genomics and ensure that embryo research is heavily regulated. In 2008, the Church of England's Ethical Investment Advisory Group reviewed its guidance to reduce thresholds for screening of human embryonic cloning from 25% to 10% of group revenues, and employ an engagement approach instead of divestment from companies who use human embryonic stem cells in research. We believe that healthcare has a significant role to play in delivering a sustainable future. Where we invest in businesses that employ genomics to advance scientific research, we expect the highest ethical, safety and regulatory standards from companies with involvement in these areas, such as strong privacy and security of patient information and consent practices.

GMOs (food)

Genomics, the study of genes and DNA sequencing, has led to a huge number of medical discoveries and breakthroughs, including the effective diagnosis and development of personalised therapies for cancer treatment. Because of this potential, we do not have an exclusion on GMO, however, we use Morningstar and MSCI to screen any business involvement with genetically modified organisms in our investments so that we can monitor the context and application of any ties. Where we invest in businesses that employ genomics to advance scientific research, we expect the highest ethical, safety and regulatory standards from companies with involvement in these areas.



Genetic modification can also positively impact agriculture, this has led to the adoption of the well-known term GMOs or Genetically Modified Organisms. At present, mass-scale agricultural practices are the biggest source of land depletion and pesticides used to grow crops are increasingly being identified as related to incidents of dermatological diseases, cancer and reproductive disorders. However, the role for mass-scale agriculture will continue to increase to meet the needs of growing populations. This will continue to intensify, as severe weather pattern changes associated with climate change reduce the areas that are viable for agricultural use. GMOs that have been modified to withstand stronger weather patterns and lower precipitation for example could offer a solution to some of these issues, helping us continue to feed the world. And yet, we acknowledge there is still no scientific consensus on the safety of GMOs, because of this we look to address some of the major food and agricultural challenges through investments in innovation around alternative protein and dairy sources, naturally occurring enzyme fertiliser packs and precision farming. We prefer to invest in solutions that benefit small scale farmers who have more sustainable practices around their use of natural resources and protection of biodiversity, as well as a wider variety of key nutrients in their agricultural results.

Plastics

Plastic is unique in its ability to be durable and cost-efficient. This long lasting and lightweight characteristic has helped reduce food waste and contamination and has become a game-changer in the pharmaceutical and medical fields. However, over 99% of plastics are produced from chemicals derived from oil, gas and coal, which are in themselves highly polluting materials. Additionally, due to the large majority of plastics being single-use, they most commonly end up in landfills and oceans, creating pollution and having a negative effect on biodiversity. Microplastics, which are invisible traces of broken-down plastic, have made their way into oceans. These microplastics are harmful to both human and animal health, due to a subcomponent called BHA which has been linked to hormone-related cancers and infertility. Our in-house sustainability tool ranks companies on their plastic usage, as well as recycling and broader waste management, to ensure the companies held in the sustainable portfolios are best prepared for consumer shifts and new regulation (such as the UK's plastic packaging tax which came into effect in April 2022). LGT UK also actively allocates to those who are at the forefront of tackling the plastic challenges, such as companies researching bioplastics and investing in the circular economy.



Water

There is a 40% gap between water consumption and supply, meaning that as a society, we consume more freshwater than is available. At current consumption rates, by 2025 two thirds of the world's population will face water shortages. If this trend continues, large populations will be displaced, affecting livelihoods, and adding to environmental stress. However, we also know that the Earth has sufficient water supplies, so long as they are used sensibly and re-used or recycled. We measure water consumption and water usage, as well as the water stress levels in which the company operates, to build a picture of the water stress exposure and the risk management for the underlying businesses in our portfolios. Water stress exposure refers to the ability, or lack thereof, to meet demand for fresh water, including both the access to physical water supplies and the quality of the water available. We also look at water risk, meaning the possibility of an entity experiencing a water-related challenge such as droughts and flooding, and the companies own management of water supplies through water risk management factors. Materials (including metals and mining), utilities and energy sectors are the top three most water intensive sectors, meaning they are most likely to face above-average water availability challenges too. In terms of countries who experience the highest levels of water stress today and by 2050 prediction levels, these are North African countries such as Egypt, the Middle East and some Asian countries, such as India and Pakistan. Water risk data points feed into our in-house sustainability rating tool to evaluate the sustainability profile of investee

companies. Additionally, within the sustainable portfolios that we run for clients, we look to invest in solutions for water treatment and purification as a means to tackle water scarcity and improve development standards. As water stress is an issue that is likely to increasingly impact companies and countries around the world, the role of these businesses will become more vital.

Climate change

LGT has put climate at the heart of our business, committing to net zero across our operations and our own investments by 2030. This target is, on average, twenty years ahead of other investment managers and banks of our size. We acknowledge it won't be easy, and therefore we need to have strong expectations of our managers and even stronger ones of ourselves. Whilst it's important that we decarbonise, equally we believe that net zero includes a Just Transition, ensuring those that are most vulnerable are not left stranded. In addition, we recognise the challenge of decarbonising the 'real world', instead of just forcing highly polluting companies into private ownership, and into the hands of those that are not prioritising environmental integrity.

Approach to analysing carbon profile and net-zero assessment

Within our proprietary sustainable assessment tool, scope 1, 2 and estimated scope 3 data on emissions is available for all the companies. We report on both absolute metric tons and emissions intensity for all businesses. Emissions intensity represents carbon

emissions, normalised by sales (million USD), which allows us to compare different sized companies.

Assessing carbon risk

To evaluate the carbon risk of funds, we use an assessment of the amalgamated carbon emissions intensity avoided or contributed, versus the industry average of all the underlying holdings. This captures when a fund is investing in businesses that have a higher carbon efficiency/lower carbon profile relative to the relevant industry. Given that there are significant differentials in the level of the carbon emissions related to an industry activities, this relative metric is important when considering relative transition risk. We also analyse a business' absolute emissions and the carbon emissions intensity (per unit of sales) to that of the global stock market (we use MSCI ACWI). On this metric, companies that operate within naturally lower carbon emitting sectors will perform better, whereas utilities and fossil fuel businesses are likely to perform worse.

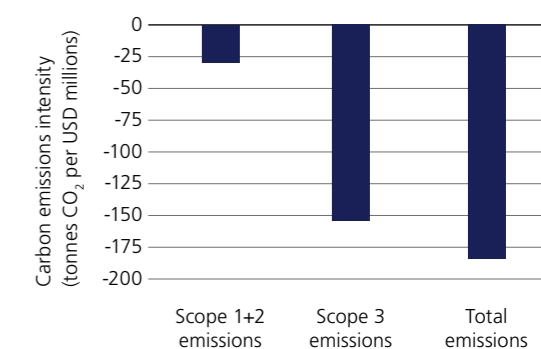
Carbon neutral

This means the amount of carbon (CO₂) being emitted is equal to the amount of carbon being absorbed from the atmosphere (for example by carbon sinks like forests). You still contribute to the global carbon budget, but fund a project where the same level of emissions are avoided.

Net-zero carbon

Net zero goes beyond being carbon neutral. It means reducing carbon emissions to a minimum level and ensuring any carbon emitted is removed from the air, delivering a balance of zero.

Sample fund carbon emissions avoided/contributed



Source: LGT UK SMax Tool, MSCI, CDP

Assessment of net zero/carbon transition engagement

As discretionary investment managers, we are long-term stewards of the money our clients have entrusted to us. The third party funds we allocate client capital to must undertake effective stewardship to deliver on this responsibility. Stewardship, including active ownership, voting and engagement activities, ensures that company boards and management recognise and are adequately managing environmental and social risks. Climate transition and net-zero strategies form an important part of this, and we would expect fund managers to be engaging on these topics. We look to monitor such engagements at asset manager and fund level, through case studies provided by the managers, and analysing voting data provided by them.

Oil and gas

The oil and gas industry accounts for over half of global greenhouse gas emissions associated with energy consumption, and yet, the industry is still crucial to the operation of many businesses around the world.

Oil and gas extraction

The extraction of oil and gas can be hugely environmentally destructive, both in its process and consequent usages. We outline the various issues encountered in conventional and unconventional extraction methods below.

Conventional extraction

Conventional methods of oil extraction centre around vertical well drilling. In this process, we see the site first being prepared for drilling, which often involves clearing trees and vegetation, removing biodiversity and if land is cleared by burning, releasing

toxic fumes into the air. This is followed by dozens of trucks transporting equipment to the site. Traditional extraction is done via a drill, which is used to drill 100 feet into the ground below water aquifers to create a well. Next fracking occurs, where water, sand and strong chemicals are pumped in at high pressure, creating cracks in the rock and allowing oil and gas to flow up through a metal encased well.

The chemicals and intense drilling can have devastating effects on nearby nature. Arctic drilling, which has long been an area rich in oil supplies, is seen by many as one of the worst areas to exploit in terms of the environment and regional biodiversity.

Unconventional extraction

Unconventional extraction includes any methods used to extract oil and gas which don't involve vertical well extraction. This includes developing oil sands, directional drilling, hydraulic fracturing (fracking) and surface mining.



Unconventional methods gained traction around the 1990s with the discovery of large shales which proved to be a revolution in terms of new supplies of fossil fuels. Shale are finely grained sedimentary rock formations rich in petroleum and natural gas. Fracking is the main method used to extract shale supplies, which is one of the highest environmentally destructive forms of extraction due to groundwater contamination and the creation of rifts in the earth's tectonic plates, which can lead to dangerous earthquakes.

In surface mining, where oil and gas reserves are closer to the surface of the earth, tailings ponds are created where sand and clay is forced into the ponds, falling to the bottom and pushing oil upwards. Surface extraction tends to be less environmentally destructive than their drilling counterparts, however they do still create surface oil ponds, which are very harmful to birds and wildlife near the extraction sites. All methods have been linked to adverse environmental effects including natural disasters like earthquakes and landslides.⁶

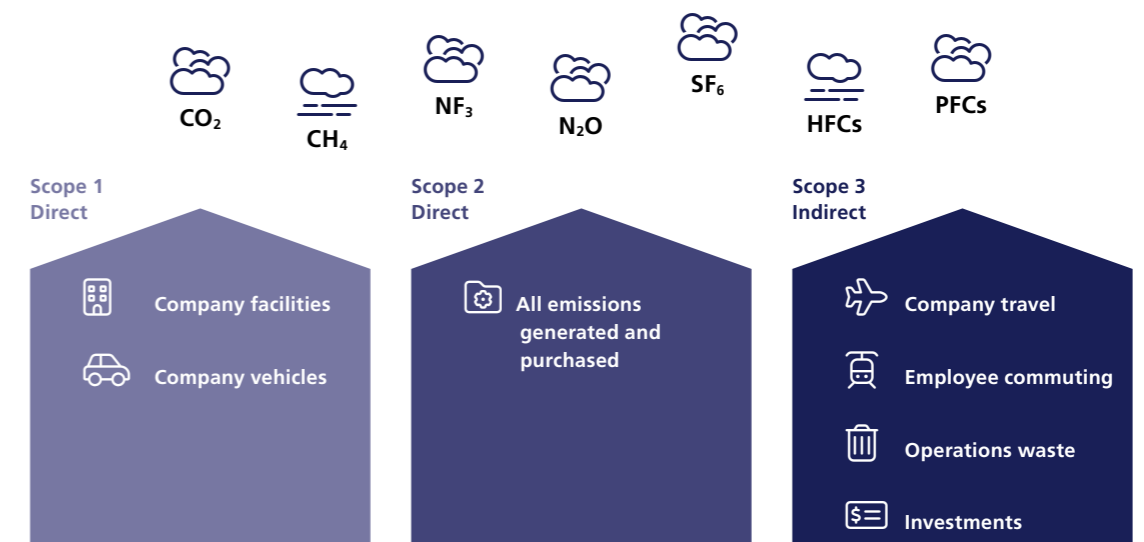
Capital expenditure to low carbon transition

As we transition to a low carbon economy, many traditional oil majors are increasing spending into research and development in clean energy. Whilst we applaud real transition stories such as the one exhibited by DONG Energy now Ørsted, which went from one of the most coal intensive companies in Europe to become the world's most sustainable energy company, we are also highly critical of energy companies greenwashing. As members of Climate Action 100+, an investor engagement initiative targeting the world's most carbon intensive companies, we want to see more than just increased spending towards a few green projects. We look at this spending in the context of all new and existing projects. We also look at whether future capital expenditure is aligned with the Paris agreement through the Climate Action 100+ company benchmark assessment.

Natural gas' role in the transition

Natural gas has the best environmental profile of the fossil fuel family, it burns cleaner, emitting 50-

Types of emissions



⁶ www.cdp.net/en/investor/sector-research/oil-and-gas-report

60% less carbon dioxide than oil or coal. Whilst we are not advocates for natural gas, we do see a role for it in the transition to a low carbon economy. Because of this stop-gap nature of gas, we do not explicitly exclude exposure to companies that have some revenue linked to the involvement in supplying Liquid Natural Gas (LNG). However, LNG should be seen as a transitional and temporary fuel, particularly for developing countries, and to reflect that we also invest in renewable energy businesses operating within these regions of the world.

Fossil fuel majors

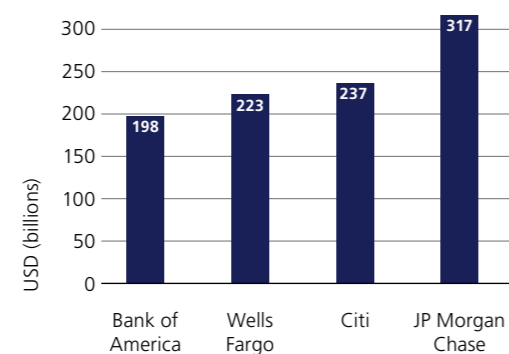
Within sustainable portfolios, further to the coal exclusion mentioned in the revenue exposure section, we also exclude exposure to oil majors. This is because we have not yet found convincing evidence that these businesses really plan to meaningfully transition, even if they have net-zero commitments that can be delivered on. At present, most of these fossil fuel companies still position themselves as operating exclusively within the fossil fuel sector but rely on technology to extract the carbon that they produce through a method called carbon capture and storage (CCS). We are yet to see other businesses transform their operational models like we have seen pioneered by Orsted. Whilst investment into CCS is potentially permissible from a sustainable perspective in the short term, it is not suitable for the long term for a number of reasons such as biodiversity and real emissions needing to decline. Between now and 2050, we expect to see meaningful actual

transitions, and therefore a business making no real attempt to transition, other than by investing in CCS to remove their own pollution, is not one that aligns with our philosophy of sustainability. Through consistent engagement, both directly in our core models and through collaborative engagements like Climate Action 100+, we hope to see true transition stories in the oil and gas sector.

Fossil fuel funding by financial institutions

The 2021 International Energy Agency's (IEA) report stated that to reach net zero by 2050, all new oil, gas or coal development must cease that very same year. As responsible stewards, we screen the revenue and loan books of financial institutions. We consider not only the net position, but also the direction of travel that the institution is taking, any new loans and their value. As a result of this research, within sustainable portfolios we run for clients, there is very minimal exposure to traditional banks, eliminating major suspects in the funding of fossil fuel projects.

Fossil fuel funding 2016 to 2020



Nuclear

The topic of nuclear energy is a divisive one as nuclear power presents risk of accidents and produces radioactive materials. These materials can remain radioactive and, if not stored correctly, prove dangerous to humans and the environment for thousands of years.

On the other hand, nuclear provides the world's most concentrated energy source, without producing direct carbon emissions. Nuclear power plants operate at a much higher capacity factor (the percentage of the time that a power plant actually produces energy) than either renewable energy or fossil fuels. Whilst nuclear power supply chains aren't entirely carbon-free, producers are looking to decarbonise the transportation of power plant components and increase the use of battery powered mining devices

recharged through wind farm energy. Nuclear is increasingly being seen as a green back-up option to supplement renewables, and as such, will form a small part of investments in green energy within the sustainable portfolios. That being said, nuclear energy is highly regulated and has strict oversight, making it one of the safest methods of baseload power generation. We review waste management procedure controversies, as well as operational incidents and penalties, through our in-house tool to ensure the most prudent approaches are taken.

Metals and mining

The energy transition is a pathway toward the transformation of the global energy sector from fossil-based to zero-carbon by the second half of this century. It is now clearer than ever before that the success of the 'energy transition' is reliant upon the increased mining of certain metals, such as copper, lithium, nickel and cobalt, commonly known as 'green metals'. These metals will be at the forefront of the electrification push that is set to change many industries in the coming decades. Therefore, as we gain exposure to key trends like the green transition through our investments, we will also have exposure to mining of these key minerals. In doing this, we believe that it is important that the companies involved in the sourcing of these metals are aware of processes such as the International Council on Mining & Metals' Responsible Mining Principles, which involve the promotion of high environmental and societal standards of work. These include respect for human rights and the customs of employees, health and safety considerations, environmental issues like limiting water and energy usage, conservation of biodiversity and responsible production. Our in-house sustainability tool differentiates between mining practices, where we expect the highest levels of safety conduct, and the usage of the minerals being mined. For example, a company mining copper and aluminium which are used for EV batteries will be scored higher than a company which mines metallurgical coal for steel making, even if both have the same operational practices.

Gold

Gold is a finite resource, and so by its very nature large scale extraction processes are unsustainable; its mining and consumption cannot continue forever. However, whilst being used as a source of wealth and in jewellery, gold's unique chemical properties also mean that it is an increasingly attractive material in green innovation. Gold is used in everything from

photovoltaic cells to improve performance, to replacing platinum in hydrogen cells to improve efficiency. Within client portfolios, at certain points in the market cycle, we also believe there is a benefit to holding gold as a diversifying asset. We ensure that the gold ETC holdings in sustainable portfolios come from responsibly mined sources, which comply with The Responsible Gold Mining Principles. These principles consider environmental, social and governance standards including health and safety, environmental management and the elimination of child labour.



Human Rights

Every person around the world deserves to be treated with dignity and respect. Whilst governments and states have a responsibility to protect their citizens' rights, we believe that businesses and investors should also act in accordance too. These rights are often taken for granted in developed countries like the UK, but the pandemic has brought to light issues of factory workers in developing and developed countries facing little to no sick leave or pay, unsafe working conditions, and in some instances forced labour and imprisonment. Whilst we are strongly committed to respecting human rights and condemn the use of modern slavery, we are all too aware of how prevalent labour exploitation and forms of servitude remain across the globe. Through our stewardship work and memberships, we encourage companies to acknowledge these risks exist, and work to identify, alleviate and remove all exposures

to modern slavery and human rights abuses in their operations and supply chains. LGT is a founding member of the Lichtenstein Initiative for combating modern slavery and human trafficking, by finding illegal financial flows, offering bank inclusive finance to victims, and enabling banks with the tools to spot the signs of human trafficking and modern slavery.

In order to assess how a company approaches human rights, we look at a combination of data points such as employee wellbeing and health and safety, combined with qualitative accounts from investor site visits and strong whistleblowing policies to provide the best access to remedy if an issue were to occur. Our internal proprietary ESG tool uses MSCI data to map controversies connected to abuses of human rights, workers' rights and work place incidents. This is particularly important for businesses operating in high exposure sectors like automotive, construction and domestic work. In addition, we monitor company policies and third party fund managers' adherence to global standards, such as the UN Global Compact and the UN Guiding Principles on Business and Human Rights.

Microfinance

We invest in businesses that are providing microfinance lending opportunities to underserved communities, such as female entrepreneurs, in developing countries. Often groups such as these are unable to get funding through conventional means, leaving them even more at risk from external shocks like unpredictable weather and pandemics. The opportunities to invest in microfinance are vast, ranging from loans to expand small businesses to technologies which enable crowdfunding or peer-to-peer lending. We look to allocate to microfinance opportunities such as digital payment platforms or mobile money services, as access to capital creates resilience within communities as well as having added effects of creating jobs and alleviating poverty.

Irresponsible lending

Companies offering high-interest loans have a reputation for specifically targeting vulnerable demographics of society. We look to exclude exposure to doorstep lenders, payday lenders and pawnbroker lenders from sustainable portfolios.

Tax

We recognise the importance of tax revenues in enabling governments in developing countries to fund infrastructure and public spending. LGT Wealth Management has a rigorous approach to tax obligations for its customers and own business, ensuring LGT products and services are not designed to enable or encourage tax evasion. Therefore, these expectations are extended to our investment universe. We review tax data points and reporting through governance scores and sub metrics in our in-house proprietary sustainable research tool. We also engage with businesses we hold in client portfolios through active ownership activities on the topic of tax.

Thank you for taking the time to read through our Sustainable Positioning guide. If you have any further questions on any of the themes or topics, please do get in touch with your wealth manager.

Our understanding of the natural world and the needs of the people living on the planet are constantly changing. This means our approach to sustainable investing evolves in line with our understanding doing so too. We update this guide on an ongoing basis and we will share with you updates on our sustainable investing proposition as relevant.

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As data becomes more sophisticated,
the need for blanket exclusions is
reduced. This means our clients’
money can be invested where it has
the most sustainable influence - an
approach we are proud to facilitate.

Phoebe Stone, Partner and Head of Sustainable Investing

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Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.

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