

SUSTAINABILITY – INVESTMENT POLICY & IMPLEMENTATION

At PARSUMO, we have a strong focus on sustainability and incorporate ESG (environmental, social and governance) criteria into most [blended mandate and all fund solutions](#).

We strongly believe that material risks will arise in the very near future for companies that are insufficiently prepared for climate change, do not treat their employees fairly and appropriately, or neglect transparent corporate governance. These risks will translate into a performance disadvantage compared to better positioned companies. For this reason, such investments are underweighted or avoided altogether in our sustainability-oriented portfolios.

At the same time, we strive to generate a return in line with the market for our clients over an investment cycle.

passively managed target funds that, as part of their investment policy, follow sustainability criteria or primarily replicate indices classified and marketed as sustainable by the index provider.

There are now several ESG-compliant indices which, depending on their design, deviate only slightly or very significantly in their composition and thus also in their performance from a classic capital-weighted base index. In principle, the greater the deviation, the higher the sustainability.

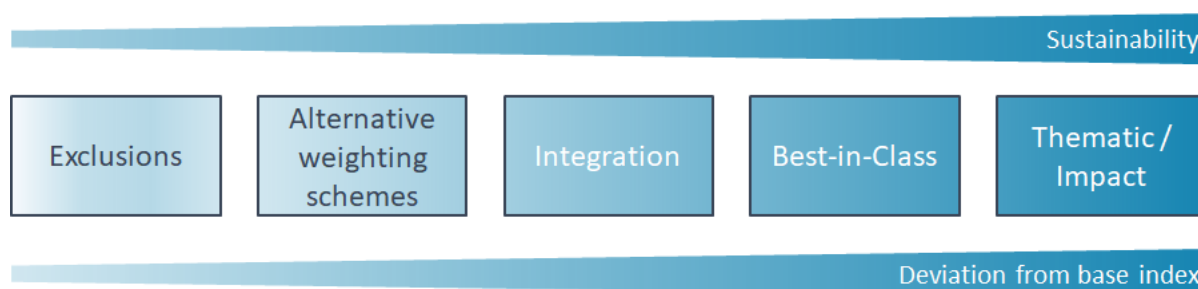


Illustration 1: Schematic representation of different approaches

Typically, we use the MSCI ESG Leaders indices for a balanced approach. SRI as impact investing deviates too much from conventional indices (increased tracking error risk). Enhanced indices are too closely aligned with conventional indices to provide sufficient deviation.

The sustainability data and criteria are defined by the respective index provider. The benchmark indices measure the development taking ESG factors into account. The investment strategy increasingly considers companies or issuers that are more committed to environmental or social aspects than others.

Goal

The aim of our balanced sustainable investment policy is to generate an investment return for our customers that is in line with the market in the long term, considering moderate to medium sustainability criteria, which should be reflected in a significantly lower carbon footprint, among

other things. The approaches used are constantly being further developed by ESG providers, so that it can be assumed that the sustainability effect will tend to increase.

Used ESG Approaches

In selecting investments, a best-in-class approach, an integration approach, an alternative weighting scheme approach, and exclusion may be applied individually or in combination.

- **Exclusion**

Based on defined values and norms, individual companies, industries or even countries are excluded from the investment universe. A distinction is made between value-based and norm-based exclusions:

- Examples of value-based exclusions: Civilian firearms, fossil fuel extraction, energy from thermal coal, child labour
- Examples of standards-based exclusions: UN Global Compact or SVVK-ASIR.

- **Alternative Weighting Scheme:**

The investment universe is evaluated based on sustainability criteria. In doing so, a weighting based on market capitalization is deviated from. Securities with high sustainability are overweighted, those with low sustainability are underweighted.

- **Integration Approach:**

Sustainability factors can be an indicator of the competitive advantage of a company/property and influence the longer-term assumptions of financial analysts. The integration approach explicitly incorporates ESG opportunities or risks into traditional financial analysis and investment decisions by asset managers. This approach is typically applied to active strategies.

- **Best-in-Class Approach:**

Within an industry, companies are compared with each other about their respective implementation of sustainable ESG criteria. For example, criteria such as efficient energy consumption, an established environmental management system, employee training programs or an independent board of directors are applied. The companies with the best sector-specific performance are included in the portfolio.

Details on the scope of exclusions in our funds can be found [here](#).

Data Providers

Our target funds use several external ESG data providers. These include MSCI ESG Research, Swisscanto, SIX, FTSE Russell or LBMA.

Asset classes with sustainability criteria

For diversification purposes, we maintain the existing asset classes for our sustainable investment solutions. If no suitable ESG product is available for the asset class, the conventional module will be retained.

As of December 2023, sustainable implementation takes place within the following asset classes using the following methodologies:

- Swiss bonds: exclusion and best-in-class
- Foreign currency bonds: Exclusion and best-in-class
- Inflation-linked bonds: Exclusion
- Swiss equities: exclusion and best-in-class
- World equities: exclusion and best-in-class
- Real estate Switzerland: exclusion and integration
- Real Estate World: Exclusion and alternative weighting scheme
- Commodities: exclusion

Selection process of the target funds

- The sustainability data and sustainability criteria are defined by the respective index administrator ("index provider").
- When selecting the target funds, a best-in-class approach, an integration approach, an approach with an alternative weighting scheme and exclusion criteria may be applied individually or in combination.
- ESG integration and the exclusion procedure are required as a minimum for all target funds used. The check is carried out on initial purchase and at regular intervals.
- The respective fund documents of the target funds serve as the source (e.g. at www.swissfunddata.ch, where the 10 largest target fund positions for the sub-fund are shown at the end of each month).
- Data from external ESG data providers is also used. ESG ratings from MSCI ESG Research are primarily used. The final ESG rating is a weighted, arithmetic average of the individual ESG ratings and must be at least BBB for the PARSUMO funds.

- The MSCI ESG rating scale ranges from AAA (industry leader in addressing key ESG risks and opportunities) to CCC (industry leader in addressing ESG risks and failures). For a target fund to be used in a securities portfolio, it must have a rating of at least BBB. Further information on MSCI's ESG rating can be found on their website <https://www.msci.com/our-solutions/esg-investing/esg-ratings>.
- As not all asset classes covered by the target funds have an ESG rating from MSCI ESG Research, a portfolio may invest up to a maximum of 20% of its assets in target funds that do not have a sustainability focus or that do not fulfil the aforementioned ESG rating criteria.

Experience

The aim is to ensure that the expected risk/return profile of a mixed sustainable investment essentially matches that of a traditional portfolio. Our performance measurement shows that the applied ESG strategy is implemented without any significant change in risk characteristics.

ESG monitoring

PARSUMO funds

Once a quarter, the LLB fund administration department, in collaboration with PARSUMO, reviews the ESG criteria defined in the fund prospectus and their implementation in the fund solutions.

Other portfolios

Once a year, but at least every two years, PARSUMO reviews the target funds used in accordance with the specially defined securities selection and monitoring process.

Last updated: December 2023