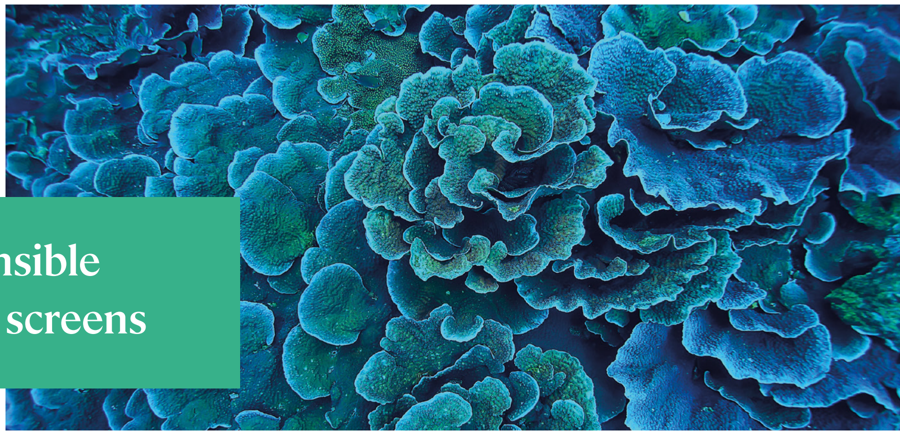
Wealth Management



# Core responsible investment screens

## Making a Responsible Investment Policy work for you

### Introduction

Charities, endowments and foundations routinely engage LGT Wealth Management due to our global investment approach, incorporation of Environmental, Social and Governance (ESG) factors into our investment process, leadership in responsible investing, and strong investment track record.

As investment managers we seek to achieve superior returns for clients through applying our Quality, Sustainable Growth approach. The approach is designed to focus on the long-term beneficiaries of structural growth trends and means that we typically invest in future-focused, clean businesses.

We also understand that many trustees will want to implement a specific Responsible Investment Policy for their portfolio in order to protect and enhance the reputation of their organisation and avoid investing in conflict with a charity's purposes.

We recognise that the individual requirements of charities differ. We can apply tailored screens to a charity's portfolio, supported through a responsible investment workshop, should this be required. However, we also recognise that some trustees will want to apply a 'tried and tested' policy. We have extensive experience working with charities in this field and have developed a set of parameters with clear, investible definitions for a core range of responsible investment screens to help charities progress their policy and screening requirements.

In this document we outline our Core Responsible Investment Screens. This is an exclusionary policy designed to capture the typical exclusions that a charity may wish to apply to their investments. It can be applied to all segregated (i.e. directly invested) portfolios managed LGT Wealth Management.

Further tailoring options are available, should your organisation wish to focus further on specific issues which reflect your purposes, strategy or values.

> “We understand that trustees and investment committees face an array of choices when deciding 'where to draw the line' on investment screens. The Core Responsible Investment Screens are designed to act as a starting point for charities who want to invest in a responsible way.
>
> Julie Hutchison, Technical Director - Charities

## Definitions and materiality thresholds

The LGT Wealth Management Charities Team has set the following definitions and materiality thresholds based on our experience in working with charities, our ESG colleagues and other sector experts.

**Avenues of stewardship responsibilities**

**Tobacco**

This exclusion applies a materiality threshold of 5% to tobacco producers and revenues for any company with tobacco related activities, such as retailers.

**Gambling**

This excludes exposure to casinos, racetracks, online and mobile gambling, or other betting establishments. It applies a materiality threshold of 5% of revenues for gambling and gambling-related activities.

**Adult entertainment**

This exclusion applies a materiality threshold of 3% of revenues of all producers, distributors, retailer and ownership categories of adult entertainment. This means your portfolio avoids the worst offenders while leaving in most mobile phone operators and hotel groups.

**Predatory lending**

This excludes companies that generate revenues from the provision of controversial lending activities. We apply a zero tolerance approach to companies involved in predatory lending activity.

**Thermal coal**

A shift away from carbon-intensive energy sources is essential if we are to limit global warming to well-below 2°C. Our exclusion policy on companies involved in producing thermal coal or generating electricity is informed by the International Energy Agency's Net Zero Emissions roadmap, increasing every six months to exclude companies involved in producing thermal coal or generating electricity from coal.

**Tar sands and shale oil and gas**

Some oil companies search for oil from less conventional sources which are responsible for significant pollution. This exclusion excludes some of the worst offenders in fossil fuel emissions. We apply a materiality threshold of 5% of revenues related to tar sands and shale oil and gas.

**Armaments and civilian firearms**

This exclusion applies a 5% threshold to the manufacturing of whole weapon systems and the manufacturing of automatic and semi-automatic civilian firearms. This avoids a blanket exclusion on aerospace companies.

**Cluster bombs and landmines**

Investment in companies that manufacture cluster munitions and landmines are prohibited under international treaties and are excluded from all LGT portfolios.

When formulating your Responsible Investment Policy, it is important to be mindful of the consequences of exclusions on the potential investment universe. To assess this we review all proposed screens against the MSCI All Country World Index. This is an index which consists of almost 3,000 companies and represents over 85% of the investable world, covering 50 countries.[1] As a rule of thumb, we advocate maintaining a universe of at least 75% of the MSCI All Country World Index.

> “The Core Responsible Investment Screens result in 95.5% of companies within this index remaining investible.
>
> Julie Hutchison, Technical Director - Charities

[1] Source: MSCI, as at end January 2021.

## Conclusion

With a Responsible Investment Policy in place, your charity can be reassured that it has taken steps both to protect its reputation and possibly also avoid acting in conflict with your charity's purposes. Our Core Responsible Investment Screens offer one option which may reflect your requirements. We can also go beyond this with tailored screens. However limited or extensive your screening list, we implement your screens by hard-coding them into dealing systems to prevent portfolio managers from ever buying the stocks involved. Adherence to all screens is monitored on a regular basis through our independent Investment Oversight and Governance Teams.