

# Our climate goal

Committed to sustainability since 1998 | Swiss edition

Everyone is talking about sustainability. We believe it's time for action. As a pioneer in the actively managed funds of the Responsible product line in the traditional asset classes, we are committed to the two-degree target of international climate policy. Specifically, since 2020, we have set ourselves the goal of reducing the CO<sub>2</sub>e intensity of the investments by at least four percent per year for these funds. In doing so, we also want to protect our investors from the financial risks of climate change and allow them to participate in the opportunities of a sustainable economy – changes in consumer demand or new future technologies, for example.

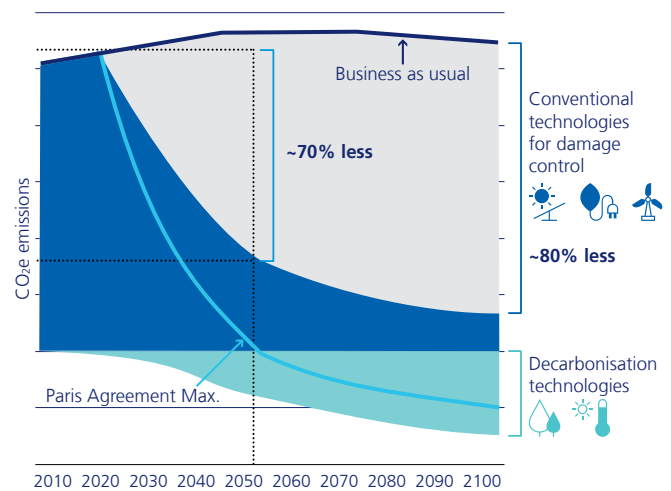
## Greenhouse gas budget as the standard

The greenhouse gas budget, also known as the CO<sub>2</sub>e<sup>1</sup> budget, refers to the amount of CO<sub>2</sub>e emissions that can still be released without global warming exceeding two degrees compared to the pre-industrial level. According to the United Nations Climate Change Council, temperatures are most likely not to rise by more than two degrees if total greenhouse gas emissions from 2019 onwards are limited to less than 1,090 gigatonnes of CO<sub>2</sub>e. For comparison: in 2019, it was estimated that around 60 gigatonnes of CO<sub>2</sub>e were emitted worldwide.<sup>2</sup>

So if the economy continues as before, the greenhouse gas budget will be completely depleted in less than 20 years. Without reduction efforts, a rise in temperature of around four to six degrees Celsius is likely by the end of the 21st century.<sup>3</sup> This could cause irreparable damage to the environment, biodiversity and human well-being. The estimated loss of market value would be between USD 4.2 trillion and USD 13.8 trillion.<sup>3</sup>

The Paris Climate Agreement of 2015 therefore stipulates targets in order not to exceed the greenhouse gas budget. For example, CO<sub>2</sub>e emissions must be reduced by at least 70% by 2050.<sup>4</sup>

## CO<sub>2</sub>e emissions comparison: With and without measures and with the Paris climate target (estimate)



Source: Zürcher Kantonalbank

## Calculation bases for CO<sub>2</sub>e intensity

Our goal is clear: We will reduce the CO<sub>2</sub>e intensity of our actively managed funds in the traditional asset classes by at least four percent per year. This means that we will achieve the required reduction of at least 70% in 2050. This target has been externally validated by our scientific Sustainability Advisory Committee.

But how do we measure CO<sub>2</sub>e emissions? A common measure is CO<sub>2</sub>e intensity, where a company's greenhouse gas emissions are divided by its revenue to obtain a measure of pollution per unit of revenue generated. Greenhouse gas emissions from companies of different sizes and sectors can therefore be compared.

Taking into account the international standard Greenhouse Gas Protocol (GHG Protocol),<sup>5</sup> we use emissions data from renowned external data providers. By standardising CO<sub>2</sub>e emissions, we obtain a comparable standard for all company investments. We consider direct and indirect emissions from companies designated as Scope 1 and Scope 2 in the GHG Protocol. Only the documentation of emissions data from upstream and downstream parts of the value-added chain (Scope 3) is not yet covered in the GHG Protocol due to a lack of data availability and quality. Therefore, we do not currently include this data in the analysis.

<sup>1</sup> CO<sub>2</sub> equivalents (CO<sub>2</sub>e) are a unit of measurement to standardise the climate impact of the greenhouse gases carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O) and fluorinated greenhouse gases (FCFs). All of these gases remain in the atmosphere for different lengths of time and do not contribute equally to the greenhouse effect.

<sup>2</sup> Cf. UN Emission Gap Report 2020: <https://www.unep.org/emissions-gap-report-2020>.

<sup>3</sup> Cf. PRI, MSCI ([https://www.ngfs.net/sites/default/files/medias/documents/overview\\_of\\_environmental\\_risk\\_analysis\\_by\\_financial\\_institutions.pdf](https://www.ngfs.net/sites/default/files/medias/documents/overview_of_environmental_risk_analysis_by_financial_institutions.pdf)).

<sup>4</sup> Cf. UN Climate Change Agreement: <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement> (<https://www.wri.org/insights/what-does-net-zero-emissions-mean-6-common-questions-answered>)

<sup>5</sup> Cf. Greenhouse Gas Protocol | ([ghgprotocol.org](http://ghgprotocol.org)).

For government investments, we use the official data of the European Union ("EDGAR"), which provides CO<sub>2</sub>e emissions data on all states. To ensure comparability for the different countries, we divide CO<sub>2</sub>e emissions by GDP.

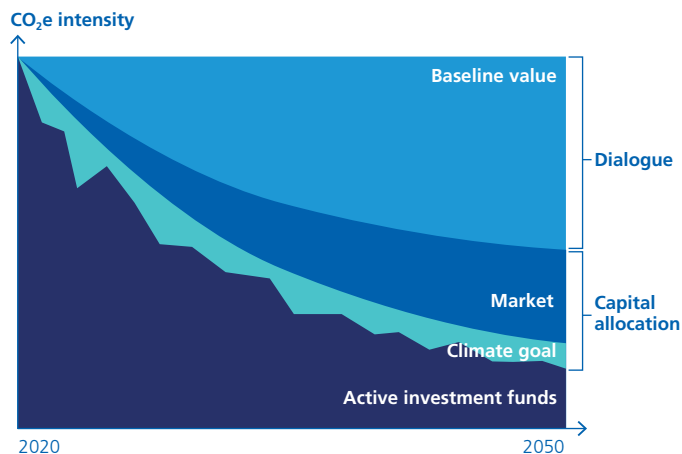
### CO<sub>2</sub>e reduction in the actively managed funds of the traditional asset classes

Since 2020, our investment experts have been aiming to achieve an annual reduction in CO<sub>2</sub>e intensity of four percent, plus nominal economic growth, in their active funds in the traditional asset classes. They monitor very closely the weighted CO<sub>2</sub>e intensity of the issuers in which the respective fund is invested relative to the issuers included in the respective benchmark index.

We achieve our reduction target through commitment and capital allocation. Although part of the CO<sub>2</sub>e reductions will take place in the market itself, it is likely that neither their scale nor their pace will be sufficient to ensure compliance with the Paris Agreement. Accordingly, through our engagement in active dialogue with the management of companies, we are working to ensure that companies set ambitious sustainability targets and make them measurable.

We also manage our investments via the capital allocation. We thus reduce the number of CO<sub>2</sub>e-intensive companies and countries that have no strategy for cutting CO<sub>2</sub>e emissions in favour of companies and countries that are efficient in terms of their CO<sub>2</sub>e footprint as well as those companies and countries that pursue ambitious reduction targets. We reduce risks associated with emission-intensive activities and take advantage of opportunities for returns arising from climate-friendly future technologies.

### Swisscanto's CO<sub>2</sub>e reduction path is based on a combination of market factors, active influence and capital allocation



Source: Zürcher Kantonalbank

We are implementing the climate goal for all actively managed funds in the traditional asset classes as standard. If the absolute reduction path cannot be implemented due to a lack of substitution options, a lower CO<sub>2</sub>e intensity compared to the respective benchmark index is sought. Public fund currently affected: Swisscanto (LU) Bond Fund Responsible Emerging Markets Opportunities.

Further information on our sustainable funds can be found at [zkb.ch/sustainable-funds](http://zkb.ch/sustainable-funds).

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