

Swisscanto Funds active climate targets

On the way to a sustainable future | Swiss edition

For the active managed Swisscanto funds of the Responsible and Sustainable characteristic, a <2°C or 1.5°C net zero climate target applies as standard with few exceptions in the traditional asset classes. Specifically, since 2020 we have set the target for these funds of reducing the CO₂e emissions of the investments by at least 4% (or 7.5%) annually. Individual funds in the Responsible characteristic apply a climate target that provides for a reduction in the CO₂e emissions of the investments relative to the benchmark. 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 CO₂e¹ budget, refers to the amount of CO₂e emissions that can still be released without global warming exceeding two degrees compared to the pre-industrial level. Recognized scientific bodies have calculated this maximum number of CO₂e tonnes that can be emitted in order to have a statistically significant chance that a maximum climate target, such as <2°C or 1.5°C is achieved. Footnote 2. This sets the carbon budget according to the climate target.²

If the economy continues as before, the greenhouse gas budget will be exceeded in 2028 for the 1.5°C climate target and in 2038 for the <2°C climate target. This is measured in terms of global CO₂e emissions in 2019. Without reduction efforts, a rise in temperature of around four to six degrees Celsius is likely by the end of the 21st century.³ 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.⁴

The Paris Climate Agreement of 2015 therefore stipulates targets in order not to exceed the greenhouse gas budget. For example, CO₂e emissions must be reduced by at least 70% from 2020 to 2050.⁵

¹ CO₂ equivalents (CO₂e) are a unit of measurement to standardise the climate impact of the greenhouse gases carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O) and fluorinated greenhouse gases (FCGs). All of these gases remain in the atmosphere for different lengths of time and do not contribute equally to the greenhouse effect.

² This sets the carbon budget according to the climate target.

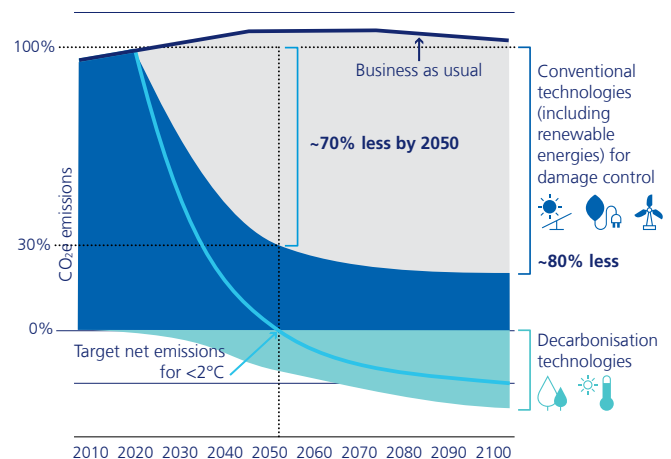
³ Cf. UN Emission Gap Report 2020: <https://www.unep.org/emissions-gap-report-2020>.

⁴ Cf. PRI, MSCI (https://www.ngfs.net/sites/default/files/medias/documents/overview_of_environmental_risk_analysis_by_financial_institutions.pdf).

⁵ <https://www.ipcc.ch/assessment-report/ar6/>

⁶ Cf. Greenhouse Gas Protocol | (ghgprotocol.org).

Planned CO₂e emission reduction and decarbonization for net emissions to align with net zero <2°C warming



Source: Zürcher Kantonalbank

Calculation bases for CO₂e intensity

Our target for our active managed funds in the traditional asset class with a reduction path is clear: we are reducing the CO₂e emissions by at least 4% annually for Responsible with few exceptions and at least 7.5% for Sustainable with the exception of the thematic funds. For example this enables us to achieve the required reduction of at least 70% for a <2°C climate target resp. 90% for a 1,5°C climate target by 2050. This target was validated by scientific Sustainability Advisory Committee of Zürcher Kantonalbank when it was introduced.

But how do we measure CO₂e emissions? A common measure is CO₂e 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 be analysed in a comparable way.

Taking into account the international standard Greenhouse Gas Protocol (GHG Protocol),⁶ we use emissions data from renowned external data providers. By standardising CO₂e 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.

For government investments, we use the official data of the European Union ("EDGAR"), which provides CO₂e emissions data on all states. To ensure comparability for the different states, we divide CO₂e emissions by nominal GDP.

CO₂e reduction in the actively managed funds of the traditional asset classes

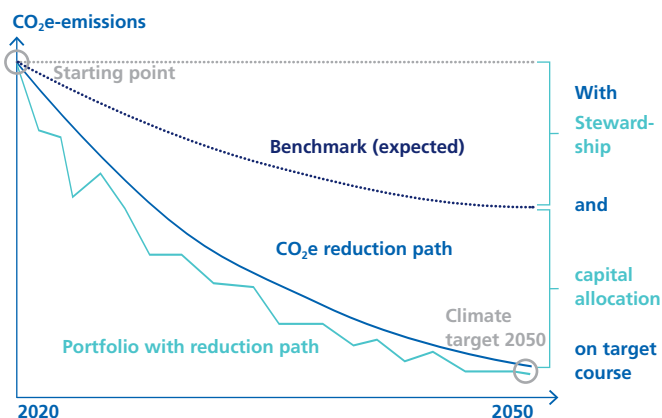
Since 2020, our investment experts have been aiming to achieve an annual reduction in CO₂e emission of at least 4% in the Responsible characteristic and 7.5% in the Sustainable characteristic excluding thematic funds, in their active funds across the traditional asset classes as a standard. Because the reduction is implemented with CO₂e intensities, additional compensation for nominal economic growth is necessary. The weighted CO₂e emissions of the issuers in which the respective fund is invested, relative to the issuers included in the respective benchmark index, are monitored very closely.

We achieve our reduction target through Stewardship and capital allocation. Although part of the CO₂e 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 active voting policy and 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 CO₂e-intensive companies and states that have no strategy for cutting CO₂e emissions in favour of companies and countries that are efficient in terms of their CO₂e footprint as well as those companies and states 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.

CO₂e reduction path is based on a combination of market factors, active influence and Stewardship



Source: Zürcher Kantonalbank

We are implementing the climate goal for actively managed Swisscanto 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 CO₂e intensity compared to the respective benchmark index is sought.

Further information on our sustainable funds can be found at [swisscanto.com/ch/en/sustainability/sustainable-investment-funds.html](https://www.swisscanto.com/ch/en/sustainability/sustainable-investment-funds.html).

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