

**Sustainable investing.  
Holistic approach  
to integrating ESG criteria.**

# Foreword

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Credit Suisse has a proud tradition of thinking and acting sustainably with the long term in mind. Today, the Bank supports numerous sustainability initiatives through active participation and engagement in a variety of organizations (see "Credit Suisse and sustainability: milestones"). Credit Suisse has also pledged a commitment to developing and promoting investment products and services that generate financial returns while delivering ecological and social benefits. To achieve that commitment, Credit Suisse created the requisite structures at the executive level in 2017 with the founding of our Impact Advisory and Finance (IAF) Department, which reports directly to the CEO.

Credit Suisse Asset Management places great importance on sustainability. We offer around 100 investment funds that fulfill the sustainability criteria defined by the Credit Suisse Sustainable Investing Framework. Credit Suisse Asset Management uses a holistic approach. "Holistic" means that environmental, social and governance (ESG) criteria are taken into account at various points throughout the investment process. We employ ESG criteria when defining the investment universe (exclusions), consider ESG-related risks and opportunities as supplementary information in investment cases and portfolio construction (integration), and advance sustainability through dialogue with companies (proxy voting and engagement). ESG criteria are factored into specific investment decisions and incorporated into risk management. Finally, we provide detailed ESG reporting to enhance portfolio transparency for our clients.

We are convinced that this focus on sustainability not only accords with, but also explicitly assists us in our fiduciary duty to preserve and increase the value of client portfolios. But responsibility toward our clients is not the only thing that drives us to pursue sustainability – we, too, must increasingly face the consequences that our financial investments have on our environment and our society.

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## Credit Suisse and sustainability: milestones

### 2000

Credit Suisse becomes an initial signatory to the UN Global Compact, the most widely signed agreement worldwide on responsible corporate governance. Under the compact, more than 9,600 companies from 161 countries pledge a commitment to ten principles concerning human rights, labor conditions, environmental protection and combating corruption.

### 2009

Introduction of the greenproperty seal of quality by Credit Suisse Asset Management Global Real Estate. This first comprehensive standard for sustainable real estate in Switzerland covers economic, environmental and social aspects.

### 2010

Credit Suisse begins to operate in a greenhouse-gas-neutral manner worldwide, pursuing a four-pronged strategy based on operational efficiency improvements, investments, substitution of existing energy sources and compensation of residual emissions.

### 2014

Credit Suisse becomes a signatory to the UN-supported Principles for Responsible Investment (PRI). This investor-led framework helps signatories to prioritize sustainability and to incorporate environmental, social and governance information into investment decisions.

### 2014

Credit Suisse endorses the Green Bond Principles (GBP), which promote the development of a global market for green bonds through a set of guidelines on transparency, disclosure and integrity.

### 2017

Credit Suisse establishes an Impact Advisory and Finance (IAF) Department reporting directly to the CEO. The objective of the IAF Department is to support asset management, institutional and corporate clients by promoting projects and initiatives that produce a beneficial social and environmental impact while generating a positive financial return.

### 2018

Credit Suisse Asset Management establishes an ESG team whose mission is to implement a comprehensive sustainability strategy.

### 2019

Complete revision of the internal greenproperty seal of quality for sustainable real estate. The seal of quality is adapted to future standards, simplified and made more transparent: all evaluation criteria are made public.

### 2020

The majority of Credit Suisse Asset Management's product offerings are adapted by the end of 2020 to adhere to ESG norms across asset classes, including equities, fixed-income investments, balanced solutions and real estate.

# 1 Introduction to sustainable investing

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The sustainable investment market is booming, driven mainly by the good performance of sustainability-themed investments and vibrant investor demand. An array of new forms of investment have taken root in recent years, opening up interesting prospects for sustainable returns.

The essential question facing asset managers today is no longer whether or not to take sustainability criteria into consideration in the investment process, but rather how consistently and extensively to factor in such criteria. The majority of asset managers still focus on approaches that exclusively employ exclusion criteria and apply them only to specific individual products. We, on the other hand, are convinced that clients today have a broader understanding of what it means to invest sustainably.

We at Credit Suisse Asset Management pursue a holistic approach to sustainable investing. We have resolved to define sustainability criteria for our Equities, Fixed Income, Balanced Solutions and Real Estate investment businesses and to integrate them into virtually all of our actively managed investment funds by the end of 2020.<sup>1</sup> We use both positive and negative selection criteria in the investment process and comprehensively implement the active ownership theme. We offer clients complete transparency on how their portfolios align with ESG criteria.

## **1.1 Forms of investment: from ESG investments to impact investing to philanthropy**

An array of new forms of investment has taken root in recent years (see Fig. 1), closing the gap between traditional investments aimed purely at earning returns and philanthropic donations motivated purely by values. Sustainable investing, which takes a variety of ESG criteria into account in the investment process in addition to traditional financial metrics, has experienced impressive growth in recent years. ESG stands for environmental, social and governance – a concept that has gained currency in the financial industry as a basis for judging the sustainability

of investments. The idea behind including ESG information is to gain a clearer long-term picture of a company, answering questions as to how well-equipped a corporation is to face the challenges of tomorrow, while at the same time answering questions about what potential and hidden risks lurk in which business areas and how these might affect future revenue and earnings. Integrating ESG criteria into investments is done with the goal of maximizing the long-term return of a portfolio while better controlling the risks in the portfolio.

Sustainable investing differs from impact investing, which goes a step further. In addition to earning financial returns, impact investors also want to exert a measurable beneficial effect on the environment or society. An impact investor wants, for instance, to make a positive contribution to promoting biodiversity in order to protect certain animal and plant species on a lasting basis. This is done through an appropriate financial investment whose quantitative and qualitative impacts are fully measurable and made understandable to the investor through corresponding reporting.

Credit Suisse has been engaged in impact investing for more than 17 years and continues to play a leading role in its further development.

The focus of this brochure centers on ESG investments. Credit Suisse Asset Management has committed itself to making a valuable contribution in this area. We also offer selected thematic impact solutions that make a direct contribution to achieving the United Nations Sustainable Development Goals (UN SDGs). Thematic and impact investing is not addressed in this publication.

<sup>1</sup> Investment funds for which we do not have full discretion will not be switched over to ESG, nor will investment funds for which there are compelling reasons not to do so, for example due to a lack of ESG data coverage in a specific market. They, however, represent the exceptions rather than the rule.

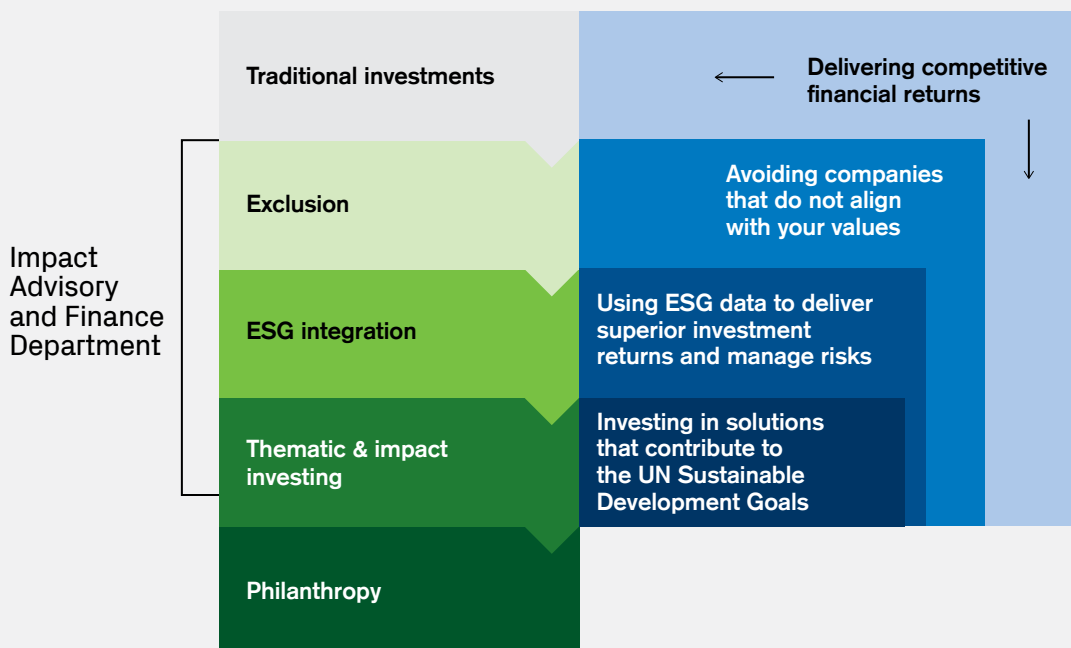
## 1.2 ESG approaches: integration is supplanting exclusions

The original and still most widely used ESG approach employs exclusion criteria. Exclusions, though, narrow the investment universe, which has a negative effect on the expected return – or so went the firm opinion of many investors up until a few years ago. But sustainable investing goes beyond exclusions. The integration of material ESG information into the investment process makes sure that the return on a portfolio does not diminish over the medium to long term, but rather increases because the companies selected are particularly well-equipped to master the challenges of the future.

Under an integration approach, ESG criteria are primarily employed to obtain a differentiated view of companies. This enables risk to be reduced and reveals return opportunities. Studies have shown that companies with good ESG management are more crisis-resistant and achieve a better long-term performance than those with poor ESG management. For example, it can pay to favor companies that are adept at recruiting the best talents and to avoid companies that face burdensome regulatory risks.

ESG criteria that have a demonstrable beneficial impact on performance carry an especially high weight in investment decisions. These criteria can vary greatly from one industry to another.

Fig. 1: IAF Department and the investment spectrum



Source IAF Department, Credit Suisse

### 1.3 High demand engenders growth

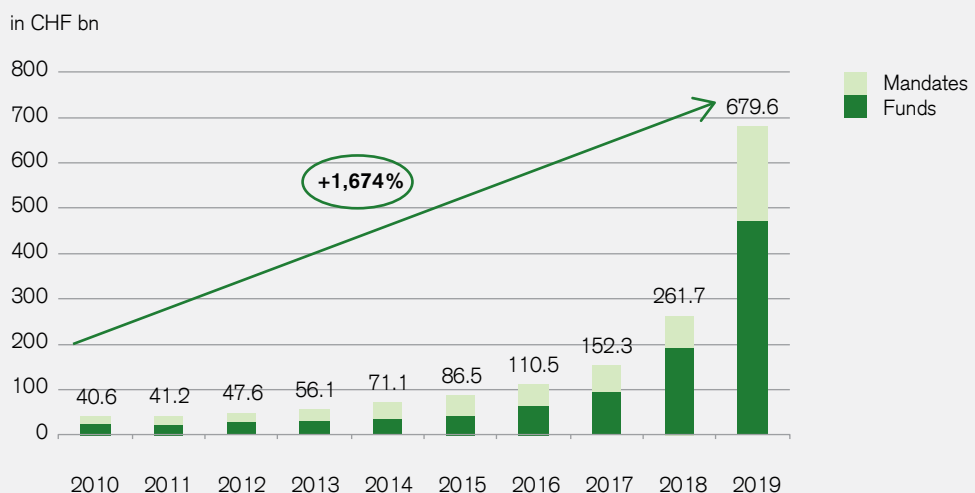
Sustainability investing is one of the fastest-growing segments of the investment market. It is being pioneered by institutional investors, which by definition have long-term investment horizons and are subject to more stringent requirements. Private individuals still tend to be less familiar with the features of sustainable investing, but are likewise increasingly incorporating sustainability considerations into their investment decisions.

The statistics strikingly illustrate this trend. In Switzerland, the market for sustainable investment products (mutual funds and mandates) has grown seventeenfold in less than ten years, with the majority of the invested assets flowing to ESG mutual funds (see Fig. 2). Bloomberg Intelligence reports that North America and Europe exhibit similar growth rates. At the start of 2016, 32.6% of ESG investment assets under management (AuM) in Europe were

invested in stocks, 64.4% in bonds, and the rest in real estate and private equity/venture capital. Two years earlier, almost 50% of ESG AuM was invested in stocks. A big shift toward bonds has thus taken place in the span of just two years.

One growth driver is the observable shift in societal values. Rapid global change and issues like plastic pollution of oceans, worldwide climate change with widely varying regional impacts, and mounting species extinctions are prompting many people and institutions to do some rethinking. Millennials in particular have consistently demonstrated greater interest in environmental and social issues than older generations have. A young generation of investors with new preferences has arisen: in a study of ultra-high-net-worth millennials conducted by Campden Research, 70% of the survey respondents expressed an interest in sustainable investing and said they actually engaged in the practice.<sup>2</sup>

**Fig. 2: Robust growth in ESG AuM in Switzerland – sustainable investment funds and mandates**



Source Swiss Sustainable Finance and University of Zurich (2020): *Swiss Sustainable Investment Market Study 2019*

<sup>2</sup> Campden Research (2015): *UHNW Millennials Research Report*.

#### 1.4 Higher returns on ESG investments

This evolution would hardly have occurred to the extent it has if sustainable investments did not also perform well. A decade ago, many investors would have unreservedly agreed with the argument still heard today that incorporating ESG criteria diminishes returns. But factoring in ESG criteria has since come to be seen as a way to increase the return on a portfolio and to better control risk.

Numerous studies confirm a positive correlation between corporate sustainability performance and financial performance. The most extensive meta-study on this subject to date was conducted in 2015 by the University of Hamburg, which examined more than 2,000 separate studies.<sup>3</sup> Over 90% of them found no negative correlation between the inclusion of ESG factors and corporate financial performance. The majority of the studies detected a beneficial impact. This positive correlation applies to all asset classes (stocks, bonds and real estate) and is observable for investments both in industrialized nations and (even more so) in emerging-market countries. More recent research corroborates these findings.

Market data such as a performance comparison between the broad MSCI Emerging Markets Index and the MSCI Emerging Markets ESG Leaders Index also verify the positive correlation. Those who opted to invest in the sustainability equity index at its inception in October 2014 earned a total excess return of 12.08 percentage points by the end of May 2020.<sup>4</sup> This corresponds to an average annual excess return of 1.97 percentage points.

#### 1.5 Digitalization facilitates ESG investments

Investing with a clean conscience thus does not have to come at the expense of a lower return or higher risk. On the contrary, today's data analytics capabilities (big data) enable the return and risk attributes of a portfolio to be improved by incorporating relevant ESG information and identifying correlations between individual factors and overall performance. Pertinent information on enterprise sustainability is mostly accessible to the public nowadays and gets published in companies' annual reports and corporate sustainability reports. The challenge lies in putting the millions of data points and data sets into a proper correlative perspective in order to quantify the impact on the performance of a company.

Dependability, traceability and robustness of the data utilized are priorities for us. MSCI ESG Research, the leader in the market, is our primary data provider. The firm employs over 170 analysts worldwide in charge of collecting and preparing data. We nonetheless scrutinize the ESG data ourselves and discuss them with the data providers if they appear unrealistic.

<sup>3</sup> Bassen, Alexander, Busch, Timo and Friede, Gunnar (2015): "ESG and financial performance: Aggregated evidence from more than 2,000 empirical studies," *Journal of Sustainable Finance & Investment* 5 (4): 210-233.

<sup>4</sup> Data from MSCI for the period from October 31, 2014, to May 31, 2020.



## ESG criteria are essential to holistically assessing companies

Today, purely financial aspects no longer suffice to holistically rate a business enterprise. It is equally important to evaluate how companies score on individual ESG criteria. Under our approach, we examine more than 8,000 companies on the basis of 37 different ESG metrics, scrutinizing their performance with regard to the following aspects in particular:



# E

### as in environment

- Contribution to climate change, e.g. CO<sub>2</sub> footprint and CO<sub>2</sub> emissions
- Handling of and impact on natural resources, e.g. water and biodiversity
- Waste and pollution
- Creation of possibilities and opportunities in relation to the environment, e.g. cleantech and renewable energy



# S

### as in social

- Human capital, e.g. employee safety, health and continuing education
- Product liability, e.g. product safety and data security
- Possibilities and opportunities in the social sphere



# G

### as in governance

- Elements of sound corporate governance, e.g. composition of the board of directors and management, compensation as well as ownership structure
- Corporate conduct, e.g. with regard to ethics, transparency and corruption

Our analyses draw on support from leading data providers like MSCI ESG Research and RepRisk, with which we have cooperated for years.

# 2 Regulatory standards

Sustainable investment regulations aimed at fostering increased transparency and greater standardization are rapidly expanding. The EU Action Plan on Sustainable Finance and other national and supranational regulatory efforts will have far-reaching impacts on financial markets and their actors, and especially on asset managers.

In the past, sustainability investing was regulated nationally, if it was supervised at all. Over the last two to three years, though, there has been a lot of regulatory progress in this area internationally, especially in Europe. With the help of several initiatives and its Action Plan on Sustainable Finance passed in 2018, the EU wants to bring about not only more transparency, but also to create a first-ever classification system (taxonomy) to define what constitutes sustainable investing.<sup>5</sup> The taxonomy is to serve as a kind of seal of quality certifying the sustainability orientation of mutual funds and other financial products to aid investors in their investment decisions. Policymakers in Brussels expect this to bring efficiency gains because it will relieve banks, asset managers and investors from each having to ascertain for themselves whether an investment is genuinely sustainable.

## 2.1 Action Plan on Sustainable Finance

The Action Plan on Sustainable Finance will bring about far-reaching changes in Europe. Although the details have not all been finalized yet, it appears that the implementation of the action plan will greatly expand the volume of sustainable investments. The EU is aiming to mobilize EUR 180 bn of private-sector capital per annum by 2030 with a specific view to investing this in the energy and transportation sectors and in turn reducing European greenhouse gas emissions. The EU is pursuing this objective to contribute to the international community's goal of limiting global warming to between 1.5°C and 2.0°C above pre-industrial levels.

## 2.2 Shareholder Rights Directive II (SRD II)

In addition, the rights of shareholders are to be enhanced in Europe by the EU's second Shareholder Rights Directive (SRD II), which aims to further expand shareholders' possibilities for engagement in, and exertion of influence on, publicly traded companies, as well as to facilitate cross-border transmission of information and the exercising of shareholder rights. The SRD II covers four main areas:

- Special requirements with regard to **identifying shareholders** to enable direct communication between companies and their stockholders
- Shareholders' **right to vote** on remuneration reports and remuneration policies for members of companies' executive boards and boards of directors at annual general meetings
- **Transparency** and approval of transactions with affiliated companies or individuals
- A stricter **obligation of transparency** for institutional investors, asset managers and proxy advisors to enable informed investor decisions

In the future, institutional investors and asset managers are to publicly disclose an engagement policy on a "comply or explain" basis. The engagement policy must describe how they monitor investee companies on important matters including financial and nonfinancial performance and risk, capital structure, social and environmental impact, and corporate governance. It must also describe how they conduct dialogues with investee companies, exercise voting rights and other rights attached to shares, and cooperate with other shareholders.

<sup>5</sup> The French government introduced an official label and certification tool for financial products incorporating ESG criteria back in 2016.

In addition, asset managers are to annually disclose to their institutional investor clients how their investment strategy and the implementation thereof comply with the asset management agreement entered into and contribute to the medium- to long-term performance of the assets of the institutional investor or of the fund.

The impact that the two aforementioned directives will have on financial markets and asset managers in and outside the EU must not be underestimated. That is why Credit Suisse Asset Management stays in constant contact with relevant bodies in the EU such as the European Fund and Asset Management Association (EFAMA) in Brussels.

### **Far-reaching consequences of the EU Action Plan on Sustainable Finance**

The EU Action Plan on Sustainable Finance adopted by the European Commission in March 2018 pursues three prime objectives. The first objective is to funnel capital flows toward sustainable investments in order to further promote and strengthen this investment area. The second is to better control financial risks stemming from climate change, environmental degradation and social issues. And the third is to enhance transparency and to foster long-termism in economic activity.

In an initial step, the action plan will aim to promote the introduction of a uniform taxonomy and the creation of sustainability benchmarks. It is already becoming evident today that parts of the action plan will have a major impact on the business operations of asset managers and banks.

#### **The main points of action are:**

- The introduction of a uniform **EU classification system (taxonomy)** that provides clarity on the meaning of sustainable investing, to be interpreted as a basis for standardization and for the establishment of a seal of quality

- The creation of **sustainability benchmarks:** benchmarks with low greenhouse gas emissions (climate-transition benchmarks) and benchmarks with a reducing impact on greenhouse gases (Paris-aligned benchmarks)
- The creation of **standards** and **labels** for "green" sustainable financial products
- Clarification of asset managers' **fiduciary duties**
- The development and promotion of **sustainable infrastructure projects**
- Integration of sustainability considerations in **financial advice to investment clients and insurance clients**, particularly also with reference to other regulatory changes such as the Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive (IDD)
- Better integration of sustainability ratings in **financial-market research**

# 3 Your partner in sustainable investing

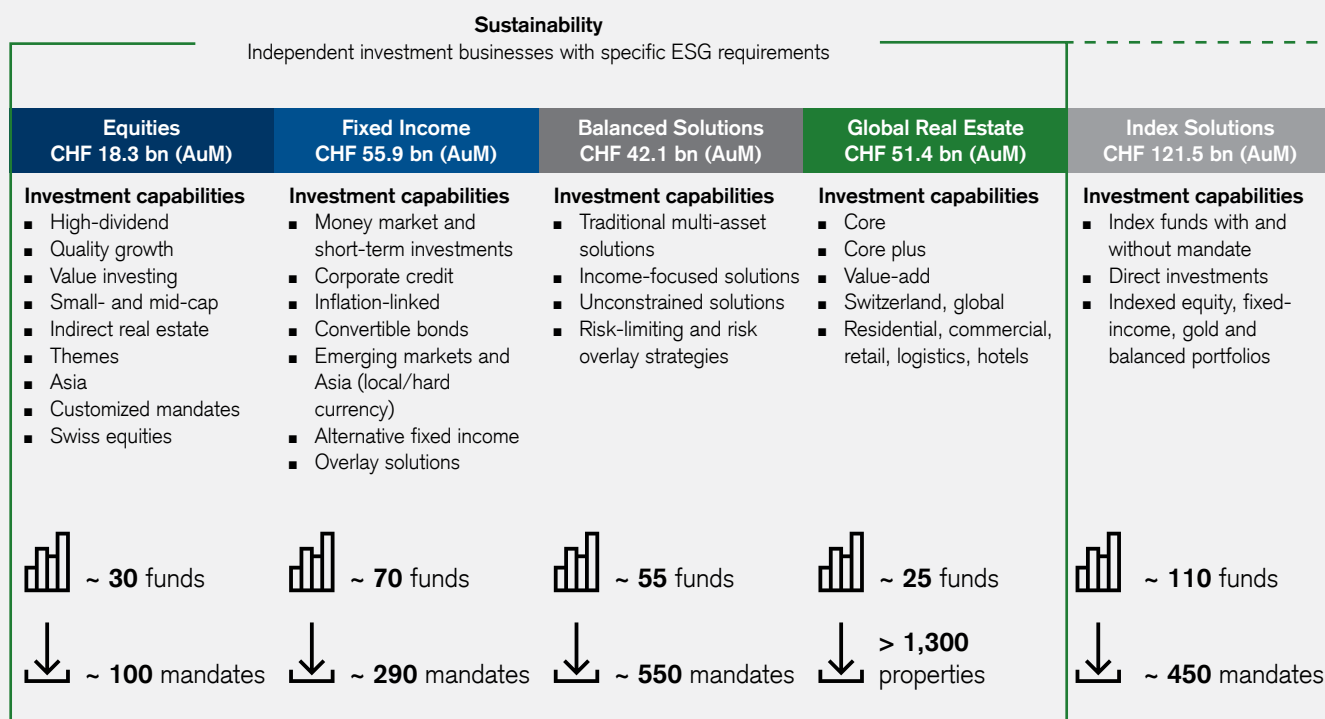
Credit Suisse Asset Management places great importance on sustainability across its investment businesses. We are convinced that a holistic approach to sustainability can effectuate positive change and plays a crucial role in enabling clients to benefit from above-average investment returns in the long run.

## 3.1 Holistic approach

We at Credit Suisse Asset Management have resolved to take up the sustainability investing theme not merely sporadically, but to implement it comprehensively and holistically. "Holistic" means that ESG criteria are taken into account at various points throughout the investment process. We employ ESG criteria when defining the investment universe (exclusions), consider

ESG-related risks and opportunities as supplementary information in investment cases and portfolio construction (integration), and advance sustainability through dialogue with companies (proxy voting and engagement). ESG criteria are factored into specific investment decisions and incorporated into risk management. Finally, we provide detailed ESG reporting to enhance portfolio transparency for our clients.

**Fig. 3: Integration of ESG criteria into all Credit Suisse Asset Management Switzerland & EMEA investment businesses**



**Source** Credit Suisse. Data as of March 31, 2020. The chart above shows the total assets under management (AuM) and the number of funds and mandates in each investment business, including investment solutions that do not fulfill the ESG criteria defined by the Credit Suisse Sustainable Investing Framework. Our target is to have CHF 100 bn of ESG-compliant AuM by the end of 2020.

To us, "holistic" also means revising our existing range of products across all investment areas. In an initial step, we are replacing current benchmarks with sustainability benchmarks. This is comparatively easy to do in the realm of equity investments. But in the fixed-income space, although there is an increasing number of sustainability indices, none exist yet in certain segments such as Swiss bonds, for instance. In a second step, portfolios will be put on a more sustainable footing. Companies whose business models we believe are not sustainable will vanish from our portfolios, as will companies that are rated as being overvalued on traditional fundamental analysis metrics. We will seek dialogue with companies that show signs of changing in a positive way and will actively support them in effectuating such change.

Our goal is to consistently integrate ESG criteria into practically all actively managed equity, fixed-income and multi-asset-class investment funds by the end of 2020.<sup>6</sup> According to the Global Status Report published by the World Green Building Council, buildings currently account for an estimated 30% of total worldwide CO<sub>2</sub> emissions and 40% of global primary energy consumption. For this reason and others, sustainability is a key theme in our real estate

investments as well. Accordingly, we have a resolute focus on efficiently implementing our sustainability initiatives in the real estate sector (see chapter 3.3). In addition, we will further expand our product range of sustainable index funds and exchange-traded funds (ETFs).

### 3.2 Implementation of ESG strategy in equity and fixed-income investments

Credit Suisse Asset Management has set itself the ambitious goal of running nearly all of its actively managed equity, fixed-income and multi-asset-class investment funds in conformity with ESG norms by the end of 2020. To achieve that goal, we created a comprehensive Credit Suisse Sustainable Investing Framework composed of four core elements. In defining sustainable investing, we adhered to academic models of sustainability and took guidance from the way of thinking and looking at things practiced by MSCI ESG Research, the leading provider of sustainability data. However, it appears obvious that the field of sustainable investing will continue to evolve further. Our ESG strategy will therefore be adapted to regulatory requirements and the needs of our clients over time.

**Fig. 4: Our holistic ESG approach with four core elements**



<sup>6</sup> Investment funds for which we do not have full discretion will not be switched over to ESG, nor will investment funds for which there are compelling reasons not to do so, for example due to a lack of ESG data coverage in a specific market. They, however, represent the exceptions rather than the rule.

### 3.2.1 Exclusions

Exclusions are our first component. These exclude sectors and/or companies that fail to meet certain minimum ESG criteria. Exclusions of companies whose business practices or manufactured products violate international norms or standards – such as makers of land and anti-personnel mines that violate the Ottawa Convention, for example – are called norms-based exclusions.

Values-based exclusions rule out industries and/or companies on the basis of specific values, ethical standards or principles. Companies that derive their revenue from coal mining, weapons development or the manufacture of tobacco products are examples of candidates for values-based exclusion. Exclusions vary depending on the investor group. Specific countries and their government bonds may also be excluded if they fail to meet certain sustainability criteria.

In addition, short-term exclusions from the investment universe may occur if companies are momentarily involved in business practice controversies such as child labor exploitation, human rights violations or tax evasion.

### 3.2.2 ESG integration

In our sustainable investment strategies, we actively integrate sustainability insights into our investment decisions in combination with our financial analysis and portfolio construction. We are convinced that material ESG indicators can provide supplementary information with regard to the opportunities and risks involved in an investment decision. We therefore strive to give a greater weight to ESG criteria that are likely to exert a positive impact on risk-adjusted investment returns in the long run (e.g. a company's innovativeness).

Our systematic approach to ESG integration in investment processes varies depending on the asset class and the intended characteristics of the specific investment strategy. We use a range of external ESG research providers and rating agencies in combination with our in-house sustainability and financial analysis to formulate ESG-integrated investment decisions that meet financial as well as sustainability objectives.

### 3.2.3 Active ownership

Our prime objective under active ownership is to maintain and increase the value of companies in which we are invested. To bring about positive change in this area, we exert influence on companies' business operations on two levels: firstly through proxy voting, i.e. the fiduciary exercise of our voting rights at general shareholder meetings, and secondly through active engagement, which means maintaining permanent dialogue with companies on sustainability issues. Today, we represent our investment clients nationally and internationally at numerous general shareholder meetings every year and increasingly hold discussions with members of corporate boards of directors and executive boards.

Regardless of regional and cultural differences reflected in business practices, we apply five standard criteria in assessing the corporate governance of companies:

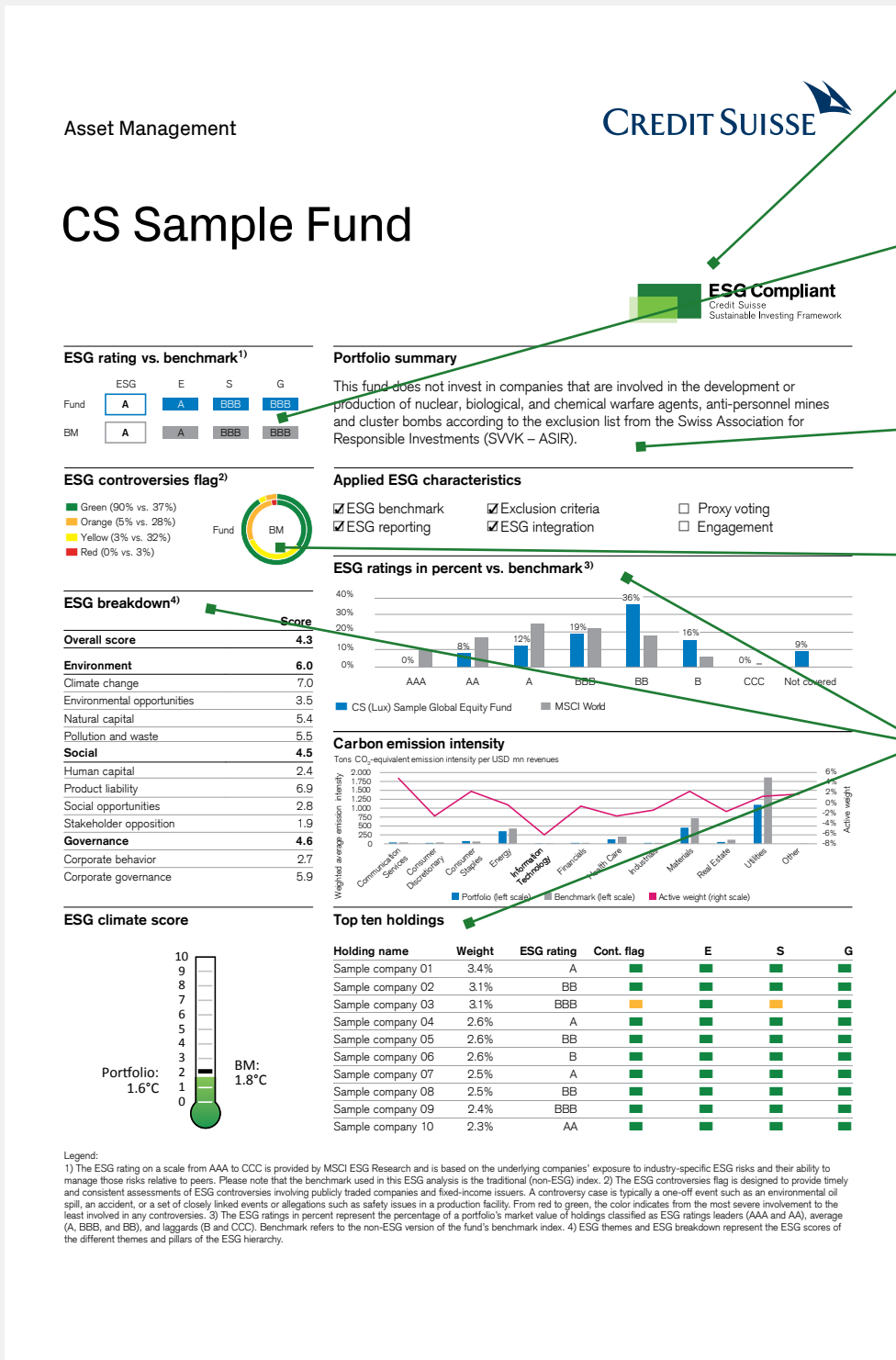
- Composition and independence of the board of directors
- Management and executive board
- Compensation (system and amount)
- Environment and social aspects
- General corporate governance aspects

### 3.2.4 ESG reporting

We aim to constantly keep clients informed about how their portfolios align with ESG criteria (in absolute terms and relative to a benchmark). In addition, we want to show them the benefits that accrue from incorporating ESG factors into their portfolios.

The most important ESG performance indicators are published each month in a separate fact sheet, which provides an ESG rating for the top ten positions and the overall portfolio, and numerically rates how the portfolio scores on individual ESG themes. The client also learns the critical areas in which the portfolio is invested and the extent to which the top ten positions have exposure to controversial business practices. Finally, the fact sheet shows the carbon emissions intensity per sector and the extent to which the portfolio complies with the Paris Climate Agreement goal of capping global warming at well below 2°C.

Fig. 5: ESG reporting enhances portfolio transparency



**Badge**

- A badge for all ESG products managed by Credit Suisse Asset Management that meet the defined ESG investment criteria

**ESG rating**

- ESG rating of fund versus its benchmark
- Individual ratings for environment (E), social (S) and governance (G)

**ESG overview**

- Portfolio summary including applied ESG characteristics on a fund level

**Controversies**

- Visualization of fund's exposure to controversies compared to the benchmark
- Traffic light system for visual presentation

**Additional information**

- Distribution of fund's ESG ratings versus its benchmark
- Breakdown of ESG rating by topic, e.g. climate change
- Top ten holdings and their involvement in controversies

For illustrative purposes only

The sustainable investing theme is in a state of evolution, which also broadens the ways of transparently depicting ESG aspects. Therefore, the ESG fact sheet is not static. We are committed to expanding and improving its informational content in the future. In addition to the standardized ESG fact sheets for investment funds, we also prepare customized ESG reporting tailored to clients' needs for discretionary asset management mandates.

### 3.2.5 Active funds versus passive index funds

In recent months and years, there has been no mistaking the relevance and attendant growth of low-cost index-tracking fund solutions that incorporate sustainability criteria. As one of the pioneer providers of such solutions, Credit Suisse Asset Management has brought an entire spectrum of sustainable index fund products onto the market. Today, our range of funds encompasses equity index funds and ETFs – each focused on a different country – that replicate MSCI ESG Leaders indices, as well as bond index funds that replicate Bloomberg Barclays MSCI Sustainability indices and the Bloomberg Barclays MSCI Global Green Bond Index. These indices are broadly diversified and have a low tracking error relative to their respective parent indices. In other words, despite a smaller investment universe, there is little risk of a deviation from the respective benchmark index.

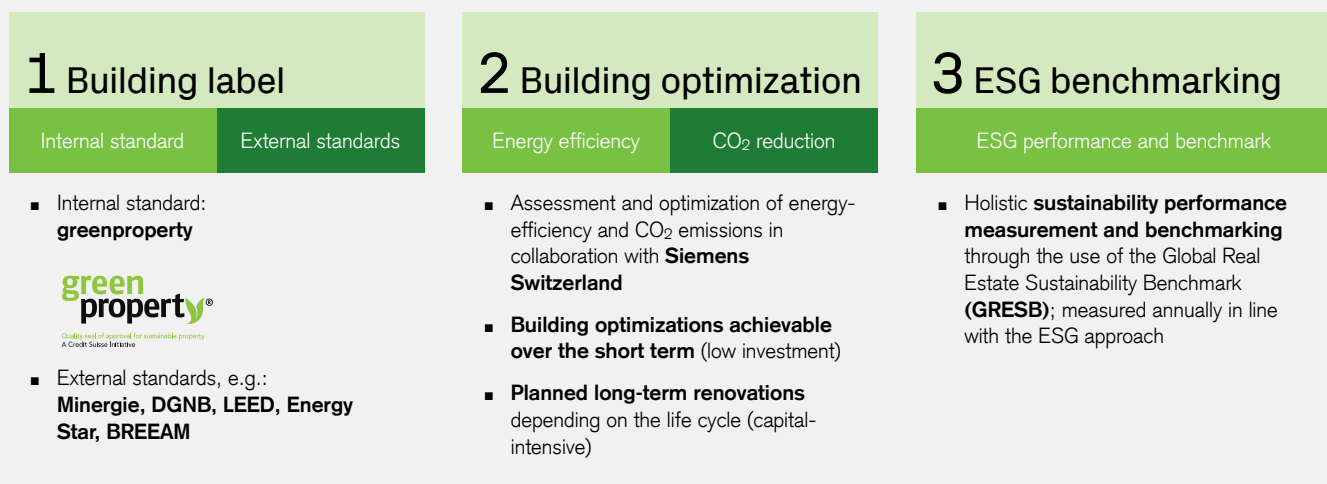
The MSCI Sustainability indices include only securities of companies that have passed a multistage selection process that combines

negative screening with a best-in-class approach. The MSCI ESG Leaders indices exclude, in a first step, all companies that derive more than 50% of their revenue from controversial businesses such as alcohol, tobacco or war armaments. In two further steps, all companies that are excessively involved in controversial business practices and do not have an ESG rating of BB or better are eliminated. Finally, only those companies with the highest ESG scores in each sector are included in the MSCI ESG Leaders indices, which target a representation of 50% of the market capitalization for each sector compared to the underlying parent index.

### 3.3 Implementation of ESG strategy in real estate investments

Credit Suisse Asset Management's real estate investment business recognized the growing importance of sustainability in the real estate sector early on and developed a comprehensive problem-solving approach that comprises three initiatives. New building projects are erected in conformity with sustainability criteria. Existing buildings are continually monitored and optimized to maximize their energy efficiency. In addition, ESG performance is measured each year. Today our offerings include a number of sustainable investment funds that we believe exert a positive impact on the environment thanks to these initiatives.

Fig. 6: Our three sustainability initiatives





### 3.3.1 Sustainable building label

Back in 2009, Credit Suisse Asset Management Global Real Estate developed the greenproperty seal of quality in collaboration with the engineering and planning consultancy firm Amstein + Walthert AG. This first-ever comprehensive Swiss seal of quality for sustainable real estate was specially conceptualized for new buildings and development projects. Office, retailing and residential properties are evaluated and systematically measured on the basis of extensive ESG criteria. The resulting data enable the sustainability performance of individual buildings and entire real estate portfolios to be continually improved. The Global Real Estate Sustainability Benchmark (GRESB) has recognized greenproperty since 2016.

A decade after the launch of the greenproperty seal of quality, a revised version was introduced in 2019. This new version reflects current and forward-looking developments in the areas of sustainable construction, digitalization and social demands, and creates greater transparency. Other established Swiss and international sustainability labels and certifications such as Minergie, SNBS, DGNB and LEED are taken

into account in the new version of greenproperty as part of an efficient certification process.

To receive the seal of quality, a property is appraised on the basis of around 50 environmental, economic and social indicators that are condensed into five dimensions. Each dimension also includes the criterion "innovation," which can improve the fulfillment rate within a given dimension. This innovation criterion can change from one year to the next and thus promotes the introduction of commercially available, technologically proven innovations to the market. Depending on the fulfillment rate, buildings receive a greenproperty seal of quality in the gold, silver or bronze category. Around 130 properties have already earned the seal of quality.

### 3.3.2 Building optimization

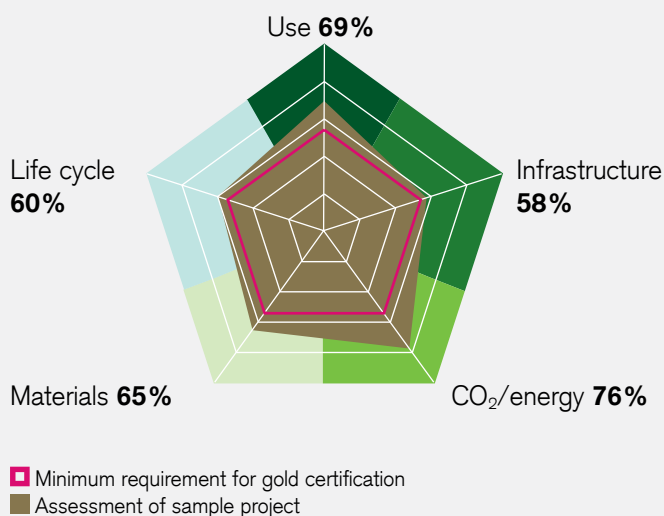
We systematically analyze and optimize the properties in our real estate portfolio to increase energy efficiency and reduce CO<sub>2</sub> emissions. To this end, we developed a program in collaboration with two long-standing partners, Siemens Switzerland Ltd. and Wincasa AG. The goal of the program is to utilize comprehensive energy monitoring to achieve the greatest possible transparency regarding the energy consumption and CO<sub>2</sub> emissions of all portfolio properties in Switzerland and abroad.

The focus of the program is on energy controlling and operational optimization. To achieve this end, the 100 or so properties with the greatest energy consumption were connected to Siemens's Advantage Operation Center (AOC). This enables the AOC to monitor the energy consumption of the connected buildings in detail online at all times. If the energy consumption of the buildings' heating, ventilation and air-conditioning systems deviates from the defined target values, immediate corrections can be made. There are plans to gradually connect additional properties to the AOC. Doing so will cover approximately 60% of the property portfolios' total energy usage.

In addition to the automatic readout of the energy consumption data for the biggest properties, the energy efficiency of all other buildings is reviewed annually on the basis of their consumption data and, through energy accounting, the buildings are entered into the Siemens Navigator platform operated by Siemens Switzerland Ltd. The heating, ventilation

**Fig. 7: Five ESG dimensions set the framework for the greenproperty seal of quality**

Assessment of a sample project. The percent figures indicate the fulfillment rate in each dimension.



and air-conditioning systems are inspected for defects and are analyzed to determine whether their settings can be optimized. To keep an early eye out for alternative energy sources, the fossil energy sources used by the different properties are also recorded. This data forms the basis for a forward-looking evaluation of ecological alternative solutions from the fields of renewable energy, district heating and CO<sub>2</sub>-neutral heat production.

Based on the examination results, expedient actions are taken wherever necessary to further increase the energy efficiency of the property concerned. The program thus makes an important contribution to global efforts to combat climate change.

### 3.3.3 ESG benchmarking

Credit Suisse Asset Management has been a member of the Global Real Estate Sustainability Benchmark (GRESB), the leading initiative in the field of ESG assessment, since 2013. Each year, the GRESB publishes a global ranking of real estate companies and real estate investment funds based on their ESG performance. To this end, the GRESB applies leading international reporting standards laid out in the Global Reporting Initiative (GRI) guidelines and the Principles for Responsible Investment (PRI).

The main merit of the GRESB initiative is that it enables sustainability in the real estate sector to be measured and compared. Measurability and comparability are what makes it possible to systematically optimize ESG performance and to adhere to defined sustainability targets.

The results of the annual ESG benchmarking are published in September. In addition to receiving an overall GRESB score, participants are graded on their ESG performance and can compare their sustainability performance with that of their benchmark group and with the overall global ranking (see Fig. 8). Furthermore, participants receive indications on the areas in which their sustainability performance can be improved. Additionally, ESG performance is ranked on a scale from one to five stars.

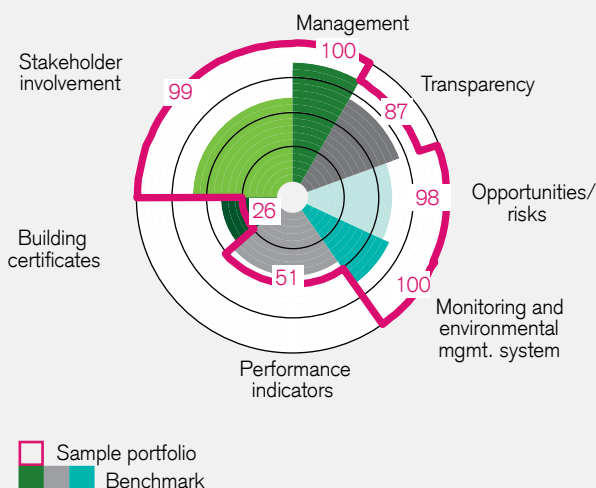
Under the GRESB program in 2019, more than 1,000 real estate companies and real estate investment funds across 64 countries were systematically evaluated in terms of their ESG performance. In the process, the GRESB assessed around 130,000 properties with a total real estate asset value of more than CHF 3.9 tn.

### 3.4 Dedicated ESG team

Since 2018, a dedicated ESG team within Credit Suisse Asset Management has been working on implementing the sustainability strategy. Its efforts include developing and implementing the ESG framework, advancing ESG integration in investment processes, monitoring compliance with ESG criteria, and preparing ESG reporting. The team is also responsible for ensuring the flow of data between external data providers, in-house systems, portfolio managers and the independent risk management unit, and is in charge of providing sustainable investment advisory services for institutional clients. The ESG team also provides assistance in converting existing portfolios into ones that conform with defined ESG criteria. In addition, it carries out active ownership activities.

**Fig. 8: Performance of a Credit Suisse sample portfolio in the main GRESB categories**

The numerical scores indicate the fulfillment rate in each category out of a maximum of 100 achievable points.



Source GRESB

# 4 Regulations

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- European Commission Action Plan on Financing Sustainable Growth
- Markets in Financial Instruments Directive (2004/39/EC) – MiFID II / MiFIR, as of January 3, 2018
- Shareholder Rights Directive II (2017/828) of the European Parliament and of the Council of Europe, as of May 17, 2017

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