

Avoidance of controversies

One of our sustainability approaches in the ZKB Discretionary Mandate and ZKB Portfolio Consulting (Classic, Premium, Expert, International)



By taking controversies into account in the investment process, investments in business activities and practices that particularly violate sustainability principles are to be avoided. We pay particular attention to the avoidance of investments in controversial and conventional weapons, thermal coal and investments that violate the principles of the UN Global Compact (such as those relating to human rights, labour standards, the environment and tackling corruption).

What are controversies?

Controversies are defined as controversial business activities and business practices carried out by companies.

By **controversial business activities**, we mean the extraction and/or sale of thermal coal as well as the production and/or sale of conventional weapons (such as tanks or artillery) and/or controversial weapons (such as cluster munitions or nuclear weapons).

By **controversial business practices**, we mean violations of the UN Global Compact. This is a worldwide norm that is agreed between companies and the United Nations to make globalisation more socially responsible and environmentally friendly. The norm comprises ten principles on topics such as human rights, labour standards, environmental standards and prevention of corruption.

Controversial business activities	Thermal coal (Revenue from extraction or sale \geq 10%)	Conventional weapons (Revenue from production \geq 5%, revenue from service activities \geq 15%)	Controversial weapons
Controversial business practices	Violations of the UN Global Compact		



How are controversies dealt with in the ZKB Discretionary Mandate and ZKB Portfolio Consulting?

The threshold values shown in the chart are applied to controversial business activities. In the process, we rely on data obtained from the external data provider MSCI ESG Research LLC. If the threshold values are exceeded, the corresponding investment instrument is avoided wherever possible. If an investment instrument selected by us invests in companies which engage in controversial business activities and/or business practices as defined above, it is subject to approval by the CIO Sustainability Board. Based on a systematic and comprehensive investment process, the CIO Sustainability Board decides whether the investment instrument should be included in or excluded from the reference portfolios of the ZKB Discretionary Mandate and ZKB Portfolio Consulting. The threshold value for the use of this kind of investment instrument is set higher in portfolios with the characteristic Responsible (ESG) than in reference portfolios with the characteristics Basic and Individual Securities.

Since the client makes the investment decisions with the ZKB Portfolio Consulting and thus determines the composition of the advisory portfolio, the proportion of controversies in the client portfolio may differ from that of the corresponding reference portfolio.

Why are investment instruments that are exposed to controversies not always excluded?

As part of the process of constructing a portfolio, we select the best fund managers in terms of risk, return and sustainability criteria. We analyse how the fund managers deal with the sustainability approaches we have defined. Because of the lack of established standards and as each fund manager individually defines what they mean by controversies, our analysis is made more difficult. One example of this is the different revenue thresholds for controversial business activities above which a company is categorised as controversial.

For more information on our sustainability approaches, please contact your client advisor.

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