JSS Sustainable Equity - Global Thematic

Summary

This product promotes Environmental and Social characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 40% of sustainable investments.

This product considers ESG aspects along the investment process with the aim to reduce controversial exposures, to align the portfolio with international norms, to mitigate sustainability risks and to harness opportunities emanating from ESG trends and to get a better informed perspective of portfolio holdings. Companies may be excluded from the investible universe due to international norms violations or if the revenues generated from controversial business activities exceed defined thresholds.

The J. Safra Sarasin ("JSS") ESG rating assesses issuers relative to their peers. The rating ranges from A-rated issuers to D-rated issuers which may engage in controversial business activities. As part of the sustainable investment process, issuers which are fundamentally misaligned with sustainability practices and hence likely to cause significant harm are rated C (worst performing relative to industry peers) or D (excluded due to controversial business activities).

Investee companies are rated for governance aspects against a variety of factors including board structure, tax compliance, executive remuneration, and adherence to governance codes, in line with the JSS sustainable investment methodology. In addition to achieving a JSS ESG rating of A or B, companies must not score <⩽1 on any of the five relevant MSCI Key Issue scores (if available). The rating ranges from 0 to 10, with 0 being the worst and 10 being the best possible rating. Applying this absolute threshold removes the globally worst performers in each area.

The do no significant harm (“DNSH”) test excludes issuers which are fundamentally misaligned with sustainability practices and/or that fail to meet minimum thresholds for adverse impact indicators. An issuer passes the DNSH test, if it is A or B rated according to the JSS Sustainability Matrix and has an SBTI target or is not active in the fossil fuel sector. If it does not have an SBTI target then the issuer passes the DNSH test only if it is not active in the fossil fuel sector, e.g. has no exposure to fossil fuels related activities, including extraction, processing, storage and transportation of petroleum products, natural gas and thermal and metallurgical coal.

The investment manager is required to consider the negative consequences of their investment decisions as indicated by adverse impact indicators, as part of the investment process. This is achieved through the exclusion of investments which do not meet minimum environmental or social thresholds. The ESG screening and universe definition are based on the JSS Investment Policy and strategy which integrate the principles of several international conventions and norms.

The product’s attainment of the environmental or social characteristics promoted, is measured according to the proportion of A- and B- rated assets, as determined by the JSS Sustainability Matrix.

The investment managers continuously monitor the JSS ESG ratings and climate-related metrics of their investment strategies and, where applicable, compare them with the benchmark in the risk management systems on an ex-ante basis. The ESG and climate performance (alignment with transition pathway) are also monitored ex-post in performance review meetings and in the Bank's Risk and Performance Committee. Deviations are flagged for remediation.

A number of environmental and/or social indicators are used to assess an issuer's performance across specific sustainability topics. Issuers that are part of the same peer group are assessed on the same environmental and/or social indicators to facilitate comparability. The indicators used are adjusted for each peer group to reflect materiality.

KPIs and weightings are identified for each industry and company-specific ESG data from external data providers are combined with industry weightings to derive the final company rating. On a bi-annual basis, JSS conducts a due diligence process, led by the Chief Sustainability Officer (“Chief Sustainability Officer”), to identify the most suitable ESG data providers.

Certain business activities which are not deemed to be compatible with sustainable development lead to the exclusion of companies from the Bank’s sustainable investment universe. The Sustainability Department is responsible for defining the standard exclusion criteria which is reviewed on a bi-annual basis by the Corporate Sustainability Board ("CSB").

The sustainability analysis is conducted in-house by the Sustainability Department in an annual, automated and systematic process. Manual ratings and ad-hoc reviews of the sustainability rating of individual companies are performed as needed by the respective ESG sector analyst. Manual sustainability ratings must be signed off by a second sustainable investment analyst and in certain cases, a manual rating outcome can be escalated to the Chief Sustainability Officer for final decision.

When conducting sustainable investment research, the investment analyst must be independent from the issuer being analysed and from other teams within JSS. To ensure data quality, the data as well as the ESG reporting products are selectively checked for significant deviations during the integration process. In addition, the data providers apply their own controls to ensure data quality. ESG data providers may apply estimates to interpolate missing data points and where data is found to be incorrect, incomplete or missing, the Sustainable Investment Analysts may complete their own ESG research assessment. While JSS has diligently hand-picked its data providers and has made a thorough effort to create balanced and fair ESG ratings for each company, JSS cannot rule out faulty assessments or deviation of its ESG ratings from other providers. As the JSS ESG rating incorporates a number of relevant environmental and/or social indicators, any potential limitations to specific data points are not considered to materially affect the overall rating and the product's attainment of the environmental and social characteristics promoted. The JSS engagement and voting approach is detailed in the Active Ownership Policy and Proxy Voting Guidelines and activities are reported in the annual Active Ownership Report.
No sustainable investment objective
This financial product promotes environmental or social characteristics but does not have as its objective a sustainable investment. The do no significant harm ("DNSH") test excludes issuers which are fundamentally misaligned with sustainability practices and/or that fail to meet minimum thresholds for adverse impact indicators. An issuer passes the DNSH test, if it is A or B rated according to the JSS Sustainability Matrix and has an SBTI target or is not active in the fossil fuel sector. Ift it does not have an SBTI target then the issuer passes the DNSH test only if it is not active in the fossil fuel sector, e.g. has no exposure to fossil fuels related activities, including extraction, processing, storage and transportation of petroleum products, natural gas and thermal and metallurgical coal. The investment manager is required to consider the negative consequences of their investment decisions as indicated by adverse impact indicators, as part of the investment process. This is achieved through the exclusion of investments which do not meet minimum environmental or social thresholds and through engagement activities. At entity-level, a detailed approach to each of the 14 mandatory principal adverse impact indicators is available on the website. At product level, this will be included in the annual report from 2023 onwards. The ESG screening and universe definition are based on the JSS Sustainable Investment Policy and strategy which integrate the principles of several international conventions and norms, including: The OECD Guidelines for Multinational Enterprises, The UN Guiding Principles on Business and Human Rights, The United Nations Global Compact, The OECD Principles of Corporate Governance, The Universal Declaration of Human Rights, The Children's Rights and Business Principles, The ILO conventions on labour standards, The Rio Declaration on Environment and Development, The UN Convention on Corruption, The Convention on Cluster Munitions. The ESG screening helps identify listed companies allegedly involved in breaches of international law and norms on environmental protection, human rights, labour standards and anti-corruption as laid out in the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. Such companies are not deemed to be compatible with the above principles and excluded from the JSS sustainable investment universe.
Environmental or social characteristics of the financial product
This product considers ESG aspects along the investment process with the aim to reduce controversial exposures, to align the portfolio with international norms, to mitigate sustainability risks and to harness opportunities emanating from ESG trends and

to get a better-informed perspective of portfolio holdings. This product´s sustainable investment process starts with the universe definition in accordance with the ESG criteria as determined by the investment manager on the basis of the sustainability analysis performed by the Bank JSS AG and its affiliates ("JSS"). The universe definition comprises norms-based exclusions and controversial business activities which are not deemed to be compatible with sustainable development and lead to the exclusion of companies from the sustainable investment universe which is base which is based on the JSS Exclusion Policy. The product invests in issuers that meet minimum requirements in terms of ESG profile. The ESG profile is assessed according to the proprietary JSS Sustainability Matrix, which considers material ESG criteria for each industry. ESG criteria may include among others: greenhouse gas emissions restrictions, policies addressing climate change, health, safety and human rights provisions, and implementation of the Modern Slavery Act. Issuers that promote environmental and/or social characteristics either provide products or services relevant for the UN Sustainable Development Goals ("SDG revenues") or are setting industry-leading operational standards in an environmental and/or social key area that is material for the respective industry. A reference benchmark has not been designated for the purpose of attaining the product's environmental or social characteristics.
Investment strategy
The financial product aims to deliver superior risk-adjusted investment performance by taking into account all relevant issuer-specific aspects, including ESG factors, in the investment analysis. The JSS ESG rating assesses issuers relative to their peers. The rating ranges from A-rated issuers to D-rated issuers which may engage in controversial business activities. As part of the sustainable investment process, issuers which are fundamentally misaligned with sustainability practices and hence likely to cause significant harm are rated C (worst performing relative to industry peers) or D (excluded due to controversial business activities). Investee companies are rated for governance aspects against a variety of factors including board structure, tax compliance, executive remuneration, and adherence to governance codes, in line with the JSS sustainable investment methodology. Over 70 KPIs are included in the governance rating methodology and are weighted per industry. In order to pass the specific good governance test, in addition to achieving a JSS ESG rating of A or B, companies must not score ⩽1 in any of the five relevant MSCI Key Issue scores (if available). The rating ranges from 0 to 10, with 0 being the worst and 10 being the best possible rating.
Proportion of investments
This product promotes Environmental and Social characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 40% of sustainable investments, all of which provide direct exposure to investee companies. The minimum share of socially sustainable investments is at least 1%. The minimum share of environmentally sustainable investments is at least 1%. The percentage share of sustainable investments above that minimum amount can be distributed in any ratio between environmentally or socially sustainable investments. This product does not use derivatives to attain the environmental or social characteristics promoted.
Monitoring of environmental or social characteristics
The product's attainment of the environmental or social characteristics promoted, is measured according to the proportion of A- and B- rated assets, as determined by the JSS Sustainability Matrix. The investment managers continuously monitor the JSS ESG ratings and climate-related metrics of their investment strategies and, where applicable, compare them with the benchmark in the risk management systems on an ex-ante basis. The ESG and climate performance (alignment with transition pathway) are also monitored ex-post in performance review meetings and in the Bank's Risk and Performance Committee. Deviations are flagged for remediation.
Methodologies
A number of environmental and/or social indicators are used to assess an issuer's performance across specific sustainability topics such as human capital development, raw material sourcing, product carbon footprint, and supply chain labour standards. Issuers that are part of the same peer group are assessed on the same environmental and/or social indicators to facilitate comparability. The indicators used are adjusted for each peer group to reflect materiality.
Data sources and processing

The Sustainability Department uses publicly available data (e.g. company reports, press and internet search) as well as data from external service providers (such as MSCI ESG, VigeoEiris, RepRisk, etc.) in the calculation of its proprietary JSS ESG Rating and temperature assessment. The external ESG datasets are received and integrated into internal systems on a monthly basis.

To ensure data quality, the data as well as the ESG reporting products are selectively checked for significant deviations during the integration process. In addition, the data providers apply their own controls to ensure data quality including engaging with companies for data verification and where appropriate, subjecting ratings to industry and market-led checks. JSS may contact the external ESG service providers to clarify data points and discuss quality improvements. ESG data providers may apply estimates to interpolate missing data points and where data is found to be incorrect, incomplete or missing, the Sustainable Investment Analysts may complete their own ESG research assessment. It is anticipated that a maximum of 2% of all data points may be estimated by the Sustainability Department.

Limitations to methodologies and data

While JSS has diligently hand-picked its data providers and has made a thorough effort to create balanced and fair ESG ratings for each company, JSS cannot rule out faulty assessments or deviation of its ESG ratings from other providers.

These may be caused by the following factors:

Lack of regulatory standards on data collection and transformation;

Lack of corporate reporting standards on ESG;

Limited accuracy of ESG data due to self-reporting by firms with limited audits;

Faulty estimates by data providers if companies do not report ESG data;

Large-cap and other biases in data reporting;

Different views of data providers on material ESG key issues;

Rater biases

These potential limitations are addressed through measures taken by the Sustainability Department to ensure data quality as mentioned above and is further mitigated by, among other factors, ensuring sufficient data coverage. JSS considers data coverage to be an important criteria in the selection of ESG data points for investment purposes and selecting data points with sufficient coverage provides higher confidence in the resulting ESG metrics. As the JSS ESG rating incorporates a number of relevant environmental and/or social indicators, any potential limitations to specific data points are not considered to materially affect the overall rating and the product's attainment of the environmental and social characteristics promoted.

Due diligence

ESG key issues, SDG-related revenues, carbon metrics and other relevant sustainability-related data are sourced from a number of data providers and integrated into JSS's proprietary database, where an industry and a company rating are calculated and displayed in the "Sustainability Matrix". A similar process is applied for country ESG ratings. On a bi-annual basis, JSS conducts a due diligence process in order to identify the most suitable in-depth ESG data providers. This process is led by the Chief Sustainability Officer who is responsible for designing, and documenting the selection and evaluation process.

At company level, ESG key issues by sector are analysed together with the assessment of related risks. Adequate KPIs and weightings are identified for each industry and company-specific ESG data from external data providers are combined with industry weightings to derive the final company rating. In addition, media and stakeholder analysis is conducted that takes into account relevant business controversies and incidents involving the rated company. The news value (influence of the source, severity of criticism, newness of the issue), news intensity (frequency and timing of the information), as well as the company's reaction (transparency, pro-activeness, remediation effort) are systematically taken into account in the ratings process. Certain business activities which are not deemed to be compatible with sustainable development lead to the exclusion of companies from the Bank's sustainable investment universe. The Sustainability Department is responsible for defining the standard exclusion criteria applied to all JSS sustainable investment strategies. The exclusions are reviewed on a bi-annual basis and any amendments are approved by the Corporate Sustainability Board ("CSB"). The CSB must also approve material changes to sustainability policies or working directives that could substantially reduce or enlarge the investible universe.

At industry level, the relative ESG risks and opportunities faced by different industries are analysed and the relevant externalities are classified into ESG-themes and underlying issues. The industry ratings are compared with other available data and rating sources, i.e. MSCI ESG industry risk intensity scores, to ensure accountable and credible industry score results. The sustainability analysis and rating is conducted in-house by the Sustainability Department. The analysis is performed in an annual, automated and systematic process. Manual ratings and ad-hoc reviews of the sustainability rating of individual companies are performed as needed by the respective ESG sector analyst, taking into account the input from the investment manager/financial analyst. These reviews can be triggered by an IPO of a security, information/data on sustainability key issues from providers or engagements or a spike in new controversies. Manual sustainability ratings must be signed off by a second sustainable investment analyst and the relevant documentation is stored for reference. In certain cases, a manual rating outcome can be escalated to the Chief Sustainability Officer for final decision. When conducting sustainable investment research, the investment analyst must be independent from the issuer being analysed and from other teams within JSS. Analysts are required to immediately inform their line manager if their independence may be compromised e.g. as a result of holding an executive position with the issuer who in turn will discuss with Legal counsel what action to take.
Engagement policies
The JSS engagement and voting approach is detailed in the Active Ownership Policy and Proxy Voting Guidelines and activities are reported in the annual Active Ownership Report. JSS pursues the following four types of active ownership activities: direct company engagement, collaborative engagement, public policy engagement, and proxy voting . Engagements are targeted to enhance long-term shareholder value by promoting sound corporate governance and strong shareholder rights, as well as good social and environmental performance of investee companies. A more detailed description of the Active Ownership approach can be found in the Active Ownership Policy on the website.