Wealth
Management

VALUES WORTH SHARING

Sustainability 360°
2022

Making investments matter

A look inside the Princely Collections: the illustrations in this publication depict studies of natural objects by Franz Anton von Scheidel.

For more than 400 years, the Princes of Liechtenstein have been passionate art collectors. The Princely Collections include key works of European art stretching over five centuries and are now among the world's major private art collections. The notion of promoting fine arts for the general good enjoyed its greatest popularity during the Baroque period. The House of Liechtenstein has pursued this ideal consistently down the generations. We make deliberate use of the works of art in the Princely Collections to accompany what we do. For us, they embody those values that form the basis for a successful partnership with our clients: a long-term focus, skill and reliability.

Illustrations: Bauer brothers, Hortus Botanicus, detail from "Lilium candidum L.", c. 1778.

www.liechtensteincollections.at

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"Climate change is no longer a concern reserved for governments, scientists and activists. 2021 saw many businesses and individuals step up and commit to a more sustainable future."

Ben Snee, CEO LGT Wealth Management

Making investments matter

Dear Client

It is remarkable to have witnessed the shift that has taken place since we launched our Sustainable Portfolio Service in 2018. Environmental, social and governance (ESG) investing is now a mainstream concept, almost 90% of global GDP has committed to net-zero[1] and the agenda for change has never been so strong.

Once a topic of concern for activists and scientists, sustainability is now seen by many businesses as a crucial consideration: for recruitment and staff retention, product development and brand image. Entire industries, such as automotive and energy, are moving through a structural revolution. Other high carbon emitting sectors such as cement, steel and agriculture are likely to experience these same dynamics in the years to come. Investors are increasingly incorporating such factors in company valuations, demonstrating a real understanding that sustainability risks, including climate risk, are increasingly being seen as investment risks.

Whilst events such as COP26, single person catalysts such as David Attenborough and the work of scientific bodies have advanced our understanding of sustainability, there is still a great deal of work to do. We are seeing the shift away from a siloed focus on 'green tech' towards the broader encompassing of climate solutions. This recognises the importance of tackling biodiversity loss and damaged ecosystems as part of achieving net-zero, but we need to do more.

More capital needs to be allocated to businesses and sectors that are delivering positive impact and change. Greater scrutiny needs to be placed by investors on how businesses approach sustainability, including climate transition. Stewardship will need to play an important part, including voting against management where commitments are not stringent enough. Businesses led at COP26; this was an encouraging sign that the nimbleness of the corporate world can pave the way on delivering the change we need. More coordination is crucial, however, to show that corporate action is more than skin-deep.

Phoebe Stone
Head of Sustainable Investing

1. Oxford Net Zero

The year sustainability went mainstream

Human behaviour is changing. More of us are thinking about living more consciously and responsibly, and brands are tapping into this shift in psyche. 2021 was the year that sustainability went mainstream. Issues that were previously tackled through activism channels and debated at science conferences have become household discussion points.

World of finance

The world of finance is changing too. COP26 was the first Conference of Parties led by businesses and the investment industry, rather than by governments. We are now at a point where the finance world has acknowledged that the allocation of capital to sustainable businesses is one of the strongest mechanisms for change.

Investment industry

We are seeing ever increasing scrutiny from the investment industry on employment practices, hiring and retention policies, net-zero commitments and Carbon footprints. More investors are voting against management when they fail to adhere to sustainbale standards and demanding greater transparency from boards on ESG issues.

Asset management

Across the asset management industry, there is a plethora of companies claiming they have cared about ESG issues since they have been in operation. Whilst in a number of cases these statements need to be taken with caution, the direction of travel is interesting to note.

89%

say their household "regularly" recycles [2]

62%

UK energy consumers purchase sustainably [3]

20%

have reduced how much meat they eat [4]

The reputational risk of holding companies operating in certain environmentally or socially damaging sectors has become a widespread consideration. As we finally saw specific reference to coal in COP26 legislation, this is also being reflected in investment and lending principles.

2. wrap.org.uk
3. Ernst & Young LLP
4. The Vegan Society

Pressure is building to both dramatically cut greenhouse gas emissions, and ensure greater levels of energy independence. The corresponding action being taken by corporates and governments is likely to cause significant disorder across a wide range of industries. Whilst this kind of disruption is desperately needed to move us to a net-zero world, we believe it is crucial to ensure that no one is left behind. We must aim for a greener world that is more equitable and sustainable.

A 'just' transition

The delivery of a 'just' transition is crucial.

Green transformation

'Just' refers to the financial help wealthier countries must pledge to developing countries to aid them on the journey to net-zero.

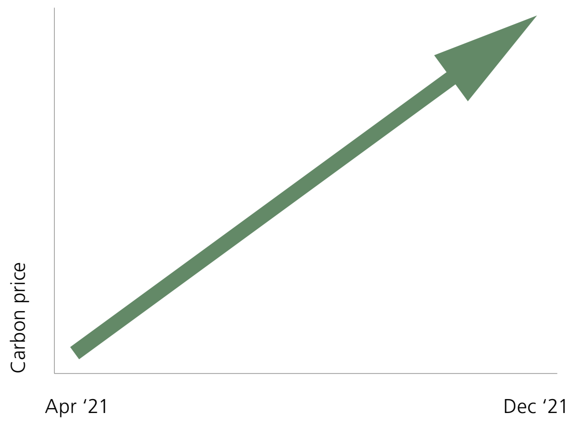
Digital transformation

'Just' denotes the importance of creating green jobs as we eradicate those linked to high carbon-emitting sectors.

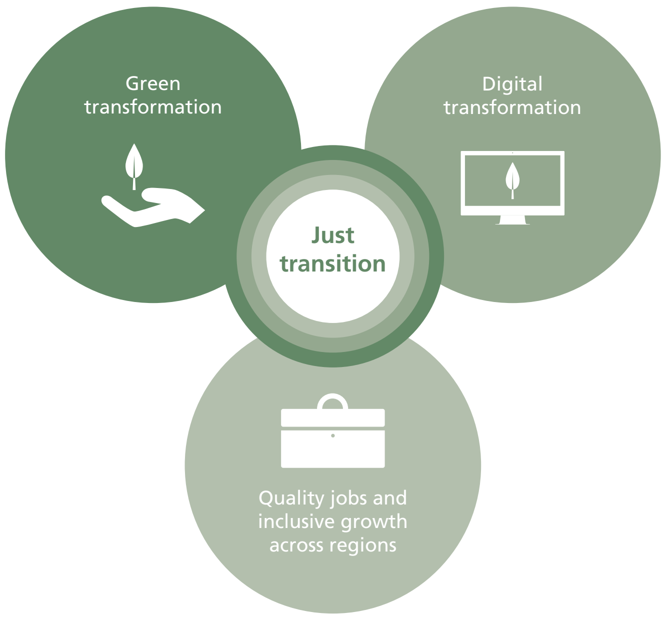
Quality jobs and inclusive growth across regions

Finally, 'just' refers to the role of governments and companies in smoothing the impact of a move to a lower-carbon world (in energy, raw materials and even end-product price volatility).

Dramatic increases in European carbon price



A 'just' transition



UN Sustainable Development Goals

At the core of the United Nations Agenda for Sustainable Development 2030 are the 17 UN Sustainable Development Goals (UN SDGs). The UN SDGs are a globally recognised framework which has been designed to achieve ongoing and increasing dignity, peace and prosperity for people and the planet. The Goals aim to make ambitious progress and combat a range of issues, including health, education, climate change, poverty, gender equality, sanitation, energy, social justice and the environment.

UN SDGs as part of an investable framework

The UN SDGs in isolation do not represent an investable universe; however, they inspire a range of investment themes that incorporate many high growth sustainable trends. We organise these themes through four sustainable investment pillars, which form the bedrock of our sustainable investing framework.

Whilst there are three UN SDGs aligned to each pillar, the UN SDGs are all interconnected and one cannot be considered without wider impact on the others. There are also intersectional elements to all four of the pillars, meaning one cannot be solved without progress being made towards the other three.

“2021 was the year that sustainability went mainstream. Issues that were previously tackled through activism channels and debated at science conferences have become household discussion points.”

Phoebe Stone, Head of Sustainable Investing

The journey to net-zero

Investing in enablers

In the LGT Wealth Management sustainable portfolios, we invest in companies that are enabling the transition to a lower-carbon economy. We call these the 'enablers'. These businesses operate across a number of sectors and tap into a huge range of different end industries.

The opportunities range from companies that are recycling lithium within electric batteries to companies that are providing sensor technology to enable greater energy efficiency.

LGT's approach to net-zero

LGT has been working for many years to further strengthen our business' commitment to sustainability and our aim is to achieve net-zero in our investments and operations by 2030. Our net-zero strategy will be reviewed and adjusted every three years, to account for the enormous progress that is expected to be made in the coming years in the areas of emissions accounting and emerging technologies. LGT is also a founding member of the Net-Zero Banking Alliance. We use specific targets and regular reporting to provide the framework that is needed to drive our own transformation, the decarbonisation of our clients' portfolios and to promote the transformation of the real economy.

Analysing carbon risk

We utilise this data to calculate the carbon intensity, as well as the carbon emissions, avoided by individual investments and the portfolio as a whole. We acknowledge that carbon intensity only shows one side of the story, as some sectors critical to the successful transition to a low-carbon world are currently high-carbon emitting sectors.

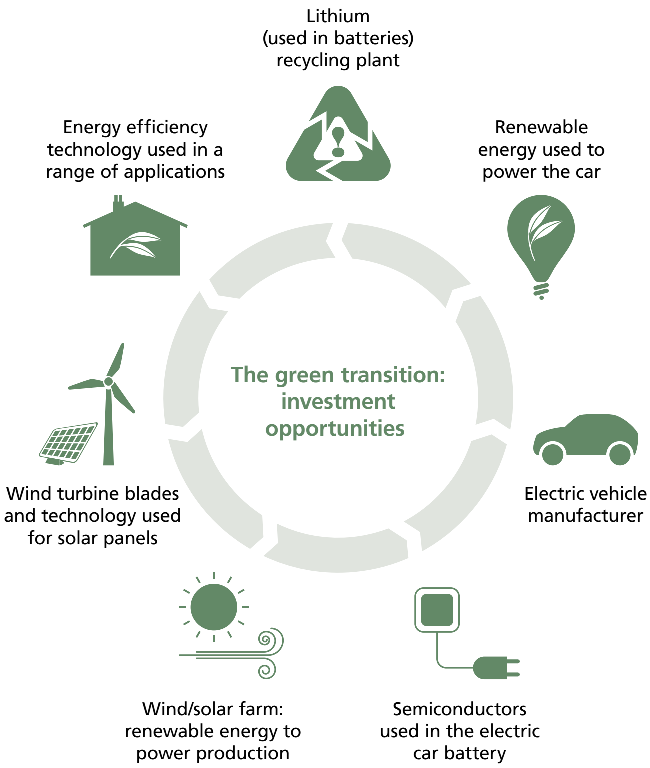
Reporting carbon avoided

The carbon avoided analysis provides an insight into the businesses that are producing less carbon emissions than the 'status quo'. Both sets of analysis are extremely helpful in understanding how an investment, or portfolio, could be impacted by the decarbonisation pathways mapped out by governments.

COP26: a reminder that we need to do more

COP26 acted as a crucial reminder that the window of opportunity we have to limit global warming is closing, and that greater progress towards achieving net-zero is desperately needed. The UK Government has prioritised the acceleration of the UK's transition to net-zero by 2050, with the aim to become the world's leading centre for green technology, finance and wind energy. Support is to be increased for net-zero innovation and new industries, such as low-carbon hydrogen production and carbon capture and storage. All of this will be needed to meet the legally binding target to reduce emissions by 78% (compared to 1990 levels) by 2035.

Net-zero investment opportunities



Climate risk is an increasingly important metric within wider investment risk management. In order to assess this, we use our in-house Sustainability Rating tool to understand the carbon emissions produced by a business, using the universally accepted greenhouse gas (GHG) protocol.

We take into consideration scope one (direct) and two (indirect) emissions as well as scope three (which covers supply chains, investments and goods and services of the business).

Case study

2021 saw the UK issue its first green gilts. Green bonds are designed to fund specific environmental projects including renewable energy, clean transportation, pollution prevention and green buildings.

A food revolution

The challenge facing the world

By 2050, the global food industry will have to feed more than nine billion people on Earth.[5] This comes in the context of resource scarcity and climate change, both of which present significant challenges to the sustainability of the global food production process.

UN SDG two targets ending world hunger, achieving food security, improved nutrition and promoting sustainable agriculture. This will require a significant increase in agricultural investment to both promote the availability of food and prevent resource degradation, if it is to be achieved.

Investing in the solutions

Eating: The decarbonisation path for the food industry will involve a more prominent role for plant-based and cellular meat alternatives. This provides an exciting opportunity and a way to access a very fast-growing investable trend.

Producing: It is also possible to target investments in areas which help to reduce the overall carbon emissions created during food production. There is exposure in the sustainable portfolios to companies that supply farmers with feed mixed with a product which reduces methane released by cows by up to 40%.

> "The decarbonisation path for the food industry will involve a more prominent role for plant-based and cellular meat alternatives."

Transforming the system

The focus on tackling the challenges connected to UN SDG two should not just be through identifying challenger businesses looking to transform the food system. Major food producers, agricultural businesses and those companies involved in all elements of the supply chain, need to pay more attention to restoring food and agriculture systems, the impact on biodiversity and prioritise more equitable pay. Businesses that are taking these issues into consideration will have a substantial impact on our global food system.

Focusing on innovation

The farming industry has not seen the levels of innovation experienced in many other industries, however this is slowly changing. In our sustainable portfolios, there is exposure to businesses that are involved in precision farming - resulting in less wastage and higher crop yields. There is also exposure to businesses that provide machinery for farmers in developing countries that are better suited to small-scale farming plots.

5. United Nations

Food production and pollution

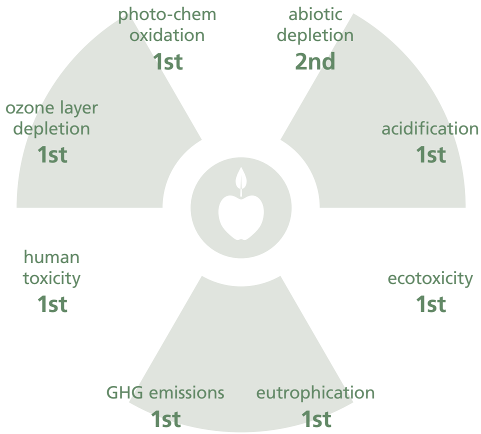
More focus is being placed on the environmental damage connected to widescale agriculture and there is significant growth opportunity in alternatives to pesticides and crop treatments. There is exposure in our sustainable portfolios to businesses that produce microbes, which can be used to naturally improve plant and soil health. This enables farmers to eliminate the use of pesticides and antibiotics.

38%
of land is used for global food production[6]

66%
of global water consumption is used for food production[7]

Food production is highly polluting

Polluting rank of food production for the major pollution categories



Source: Anterra Capital

Investment opportunities

Biodiversity boost
- Soil protected
- Replacement pesticides

Reduced GHG emissions
- Animals given natural additive to feed
- Protein alternatives
- Plant-based dairy alternatives

Healthier food
- Animals treated naturally

Farmers empowered
- Wealth distribution and economic balance

6., 7. the71percent.org

The ecosystem's health is our health

Minimise and restore

A number of businesses look to tackle biodiversity loss in supply chains. Some companies use reforestation programmes and plant trees throughout supply chains using an agroforestry approach, which contributes to biodiversity, stores carbon and provides water and nutrients to the crops around them. Unilever, as a part of its commitment to halting deforestation, is working to restore and expand forested areas to "prevent the worst impacts of climate change and safeguard the world's biodiversity", in five different landscape programmes across Indonesia and Malaysia. Restoration can also happen by taking measures to improve or re-establish degraded or removed ecosystems, where impacts could not be avoided or minimised. It is also possible to invest in enabling the use of carbon credits from the protection of standing forests to support the development of livelihoods based on sustainable land use, and protection of ecosystems and the services they provide.

Eco-restoration and wealth creation

This approach aims to ensure that land that is used is restored, whilst revenue is generated by the business. Examples of such businesses include biorefineries which process organic raw materials such as cellulose to produce bioplastics, biomedicals, and other bio-based materials such as textiles. Other businesses promote more energy efficient working practices (such as cloud computing) which reduce levels of negative environmental impact. Meanwhile, we look to companies operating within the food economy that reduce waste, product spoilage and agrochemical pollution. Finally, companies operating within or promoting circular business models offer a new operating model of economic growth. By re-using, repairing and recycling, resources are utilised more efficiently and effectively. Entire industries will need to be designed and restructured, but we are already seeing investment in infrastructure which is kickstarting the transformation to a more circular approach.

Tackling biodiversity loss in portfolios

Biodiversity is vital to human existence on this planet, from our food and water to clothing, real estate and medicine ingredients. According to the World Bank, the global economy risks losing as much as $2.7 trillion a year by 2030 if countries continue to destroy biodiversity.

Just as we mitigate risk in portfolios by holding a diverse range of financial assets, biodiversity provides resilience to nature and humanity, allowing us to reduce the risk of, successfully endure and adapt to the changes in our climate.

Avoid negative outcomes

This can be done via a revenue-based exclusionary approach to investing in companies involved in certain industries (e.g. arctic oil and palm oil production) to avoid exposure to threats to biodiversity. There are businesses that actively manage biodiversity risk such as sustainable palm oil and pesticides that minimise biodiversity loss. Businesses can look to tackle biodiversity loss through flora and fauna restoration and conservation, adopting circular economy principles within production lines, disclosures of product certifications and traceability, and the social aspect of the production of products directly linked to the natural habitat.

"Humanity's demand on nature now exceeds what our planet can naturally regenerate."

The urgency of biodiversity

The urgency of biodiversity loss is demonstrated by the Planetary Boundaries (illustrated right). This research shows that the loss of biosphere integrity (biodiversity loss and extinctions) is already considered a high risk to humanity and is even more urgent than climate change.

1.6
earths

The ecological resources we use[8]

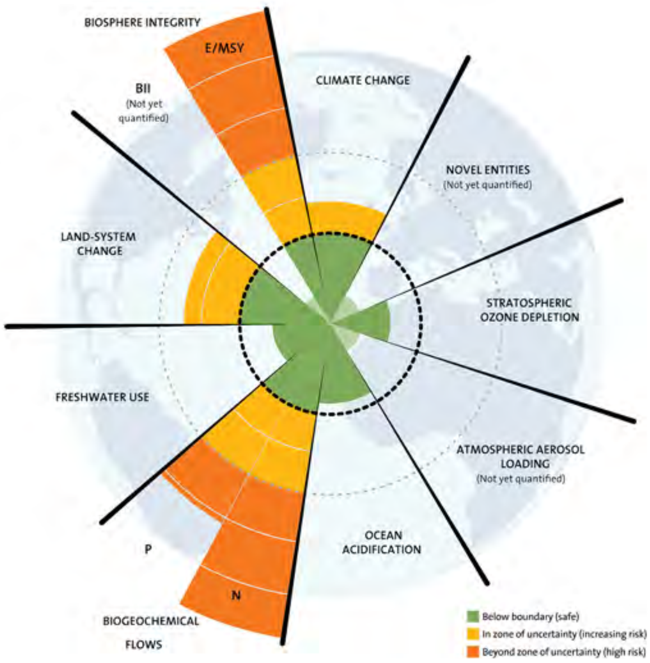
1970

68%

2016

The average decrease in populations of mammals, birds, amphibians, reptiles and fish[9]

Biodiversity loss



Source: Stockholm Resilience Centre, J. Lokrantz/Azote based on Steffen et al. 2015

"Entire industries will need to be designed and restructured, but we are already seeing investment in infrastructure which is kickstarting the transformation to a more circular approach."

8. Global Footprint Network
9. Living Planet Report 2020

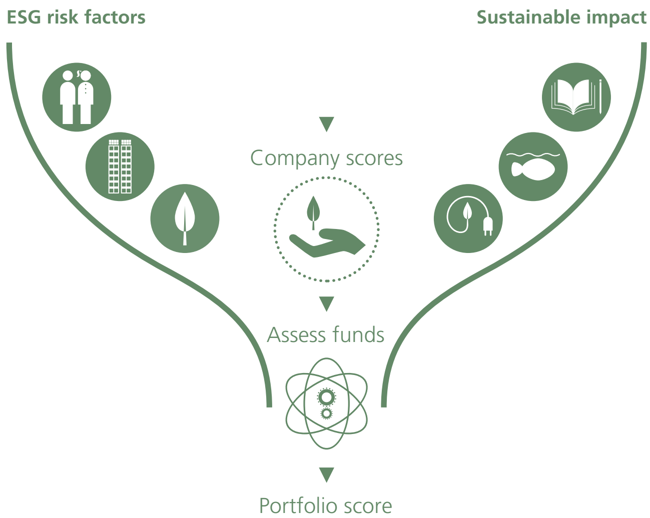
How we approach sustainability

For us, sustainability has to be more than just a label. We demonstrate this in the approach we take to running our own business and through the sustainable portfolios we run at LGT in the UK, where we strive to identify similar businesses. In order to do this, we implement a best-in-class approach to sustainable investing, to allocate capital to businesses that are driving real change. It is important to point out that we recognise that no business is perfect and neither is any portfolio. Just as we are, all companies are on a journey.

Our Sustainability Rating tool

Our in-house tool, SMax, analyses sustainability from two perspectives. It considers carefully selected ESG risk factors, whilst also considering impact generated towards driving positive sustainable change.

Our sustainable investing framework assesses the sustainability of an investment from three key perspectives: intentionality, integration and impact. We believe in a holistic approach when it comes to assessing sustainability, therefore we incorporate intentionality as an additional layer to assess the commitment behind the allocation of capital.



Intentionality

To ensure that the mission aligns with our sustainable philosophy

Integration

To ensure non-financial factors are integrated within the business' strategy

Impact

To assess the level of positive impact delivered by the investment portfolio

Leader (9 – 10)	▪ Clear sustainable intentionality ▪ Business revenue driving positive sustainable impact ▪ ESG risk factors carefully considered and successful strategies implemented
Above average (7 – 8)	▪ Some sustainable intentionality ▪ Majority of business revenues driving positive sustainable impact ▪ Most ESG risk factors carefully considered, and some successful strategies implemented
Average (5 – 6)	▪ Some of the business revenues are driving positive sustainable impact ▪ ESG risk factors considered, and some strategies implemented
Below average (3 - 4)	▪ Lack of sustainable intentionality ▪ Business revenues are not driving positive sustainable impact ▪ ESG risk factors are not consistently managed
Laggard (1 – 2)	▪ No perceived sustainable intentionality ▪ Business revenues are driving negative sustainable impact

Sustainability in our business

Sustainability is considered at every level of our business. Our Sustainable Business Committee is responsible for delivering on improvements and changes to advance our business sustainability goals. For example, in 2021:

2021

Renewable energy

The Committee targeted delivery of 100% renewable energy. Our London and Bristol offices now operate on 100% renewable energy.

Paper consumption

We have been driving the reduction of unnecessary paper consumption. Methods include the encouragement of clients to go paperless via our online client portal, as well as digitising work processes and marketing materials, and educating employees on the impact of avoidable paper consumption.

LGT Wealth Management Forest

We continue to grow our 'LGT Wealth Management Forest'. As at the end of 2021, over 12,000 trees have been planted – supporting reforestation projects across Kenya, Madagascar, India and Brazil. This will equate to 1,900 tonnes of CO_2 captured (when the trees are fully grown).

Green initiatives

We introduced a number of other initiatives, such as e-waste recycling for corporate and personal electric items, eradication of single-use plastics in the office and introduced a sustainable travel policy. We also enhanced our procurement processes to look, where we can, to buy products from B Corp companies which meet high standards of social and environmental performance.

Positive impact

We acknowledge that some of the initiatives we are putting in place are not just helping the environment, they are also saving us money. We see this as an opportunity to amplify our positive impact through a clear financial commitment to long-term and circular sustainability. As a result, we have committed 50% of year one savings and 25% of year two savings from all sustainability initiatives to our Fitter Planet Fund. This Fund will be used to deploy philanthropic capital to projects such as supplying reused and recycled tablets and computers to local communities and schools, mitigating waste to landfill and helping to tackle digital poverty.

Accountability

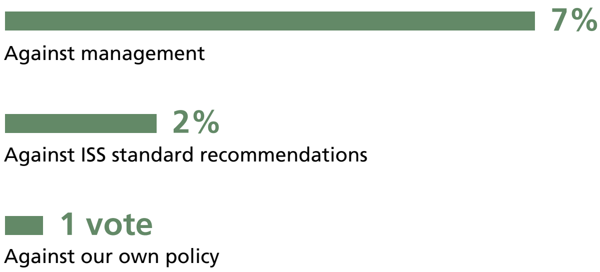
LGT's Chairman and CEO, as well as all members of senior leadership, are accountable for sustainability within our business.
LGT Wealth Management representatives report into sustainable committees across all business areas, including investments, operations, risk and governance, and human resources.

Long-term stewards of capital

As discretionary investment managers, we are long-term stewards of the money our clients have entrusted to us. Reflective of our long-term thinking and client-centric focus, stewardship is an integral part of our investment process. For us, effective stewardship means seeking the best outcome by taking an active interest in both the financial and non-financial aspects of our clients' investments. We keep the future in mind when we make decisions today.

Our responsibility includes ensuring that company boards are independently scrutinising management and that they recognise and manage environmental and social risks.

In 2021, we voted on 1,408 resolutions at 98 company meetings



Active voting

Through our partnership with ISS, we systematically vote across all equity and investment trust holdings on our buy lists at AGMs and EGMs.

Such issues include voting against excessive remuneration, entrenched boards and voting for regular change of auditors, board diversity, accountability and responsibility of board as well as advocating for ESG disclosures.

Engagement

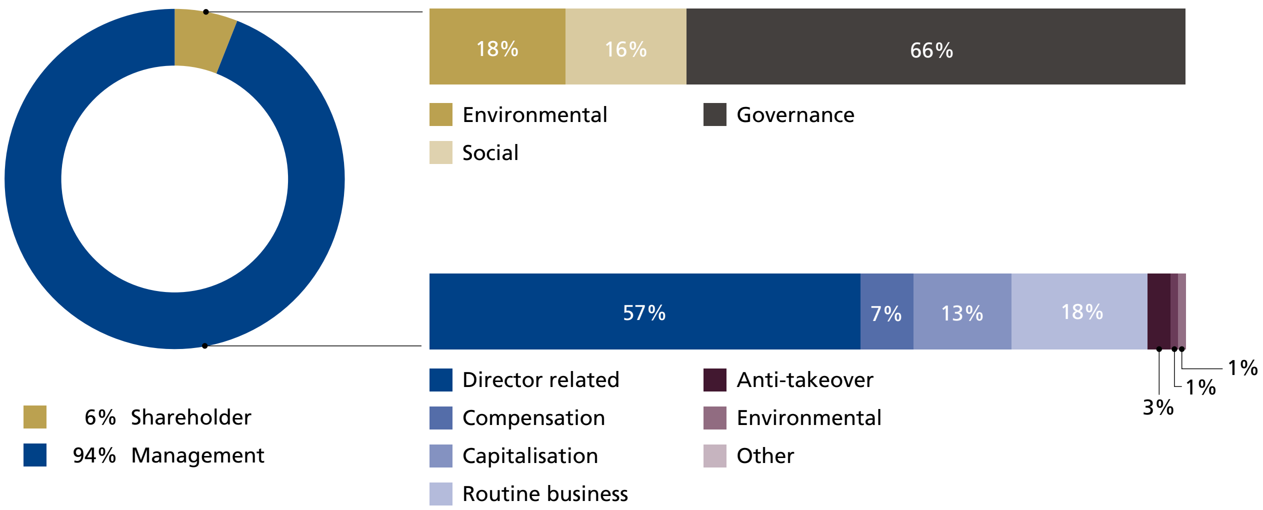
Engagement between a business and an investor on non-financial issues can create shareholder value.

All funds held in the LGT Wealth Management sustainable portfolios conduct regular engagement with their underlying investee companies. Engagement usually looks to share insights at industry or company level, and to aid development on a specific topic.

Case study: BHP

During 2021, we voted against the approval of BHP's Climate Transition Action Plan, in line with the recommendation of ISS. This was due to concerns over the company's scope three targets, which rely on both divestment of oil and gas businesses and technology innovations relating to the main business of provision of iron ore to steel makers – which present material risks in the long term and are still ongoing. Finally, there was concern over the fact that BHP's net-zero commitments have not been approved by the Science Based Targets Initiative.

Proposal types



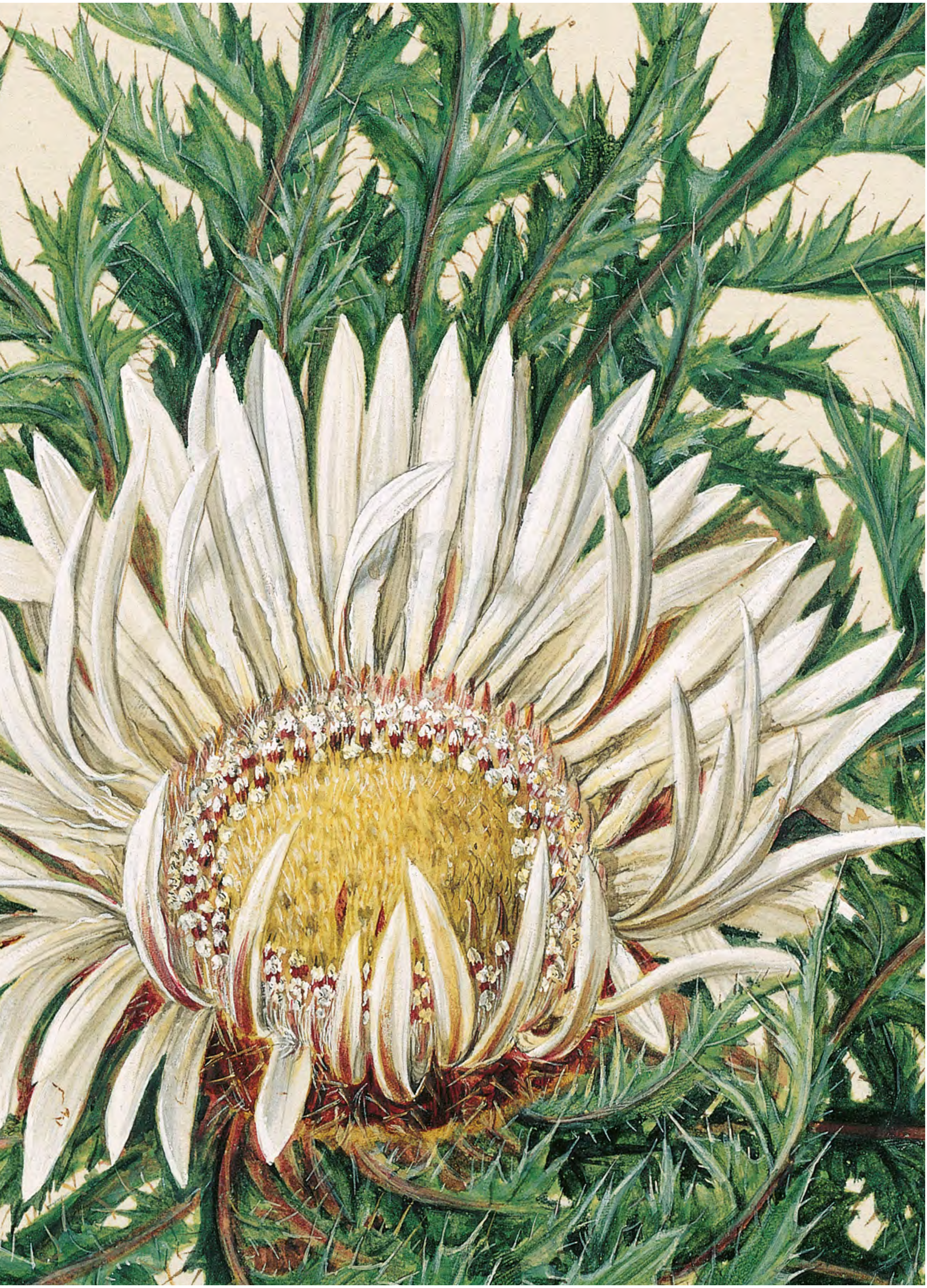
Source: LGT Wealth Management's voting data, Institutional Shareholder Services (ISS)

Case study: net-zero alignment

During 2021, we engaged with all sustainable funds to understand the approach taken by each to net-zero alignment and the decarbonisation pathway of their holdings.

Liontrust Asset Management's 'One and a Half Degree Transition Challenge' is an excellent example of engagement on net-zero alignment. Across all of the companies held across the Liontrust fund range, around a quarter have absolute decarbonisation targets in place consistent with 1.5 degrees. Including companies aligned with the Paris Agreement takes the proportion to a third. This clearly demonstrates the need for investors to take action. However, the situation is moving rapidly, and very few companies do not see alignment with net-zero and tackling climate risk within their business as a major focus for the years ahead.

What is encouraging is that Liontrust is not alone in these types of engagements. All of the strategies held within the sustainable portfolios are taking steps to analyse all underlying holdings and associated carbon risk. Whilst the level of detail and data varies depending on each team's approach, one trend is very clear: this topic is something the fund managers are prioritising through their investment process and is an area of strategic importance.



Brothers Bauer, detail from "Carlina acaulis L.", c. 1777 © LIECHTENSTEIN. The Princely Collections, Vaduz-Vienna

“For us to have a sustainable future, we need to rethink growth, reframe investment and promote conscious capitalism.”

Phoebe Stone, Head of Sustainable Investing

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