

●ethos



ETHOS PRINCIPLES FOR SOCIALY RESPONSIBLE INVESTMENT

5TH EDITION

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5th edition

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The **Ethos Foundation** is composed of more than 250 tax-exempt Swiss pension funds and institutions. Founded in 1997, its aim is to promote socially responsible investment and to foster a stable and prosperous socio-economic environment.

Signatory of:



Ethos Services provides advisory services in the field of socially responsible investments. Ethos Services offers socially responsible investment funds, analyses of shareholders' general meetings with voting recommendations, a program of dialogue with companies as well as environmental, social and corporate governance ratings and analyses. Ethos Services is owned by the Ethos Foundation and several members of the Foundation.

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ETHOS PRINCIPLES FOR
SOCIALY RESPONSIBLE
INVESTMENT

Introduction

The Ethos principles for Socially Responsible Investment (SRI) define how Ethos understands socially responsible investment. They therefore apply to all investment solutions offered by Ethos. In addition, these principles also aim to guide, by way of recommendations, the decisions of investors who wish to invest in a sustainable and responsible manner.

These principles for SRI are based on the Ethos Charter which defines the two aims pursued by the Ethos Foundation:

- Promote principles of sustainable development and best practice corporate governance in investment activities.
- Promote a stable and prosperous socio-economic environment that works for the benefit of civil society as a whole and safeguards the interests of future generations.

These Ethos principles are complementary to each other and constitute a coherent process. However, Ethos is aware that the emphasis put on one or the other principle will be more or less pronounced depending on the specific characteristics of the investor concerned.

The Ethos principles are intertwined and can be categorised in three groups. The first part specifies the fiduciary duty of the socially responsible institutional investor who manages the capital of third parties with the aim to generate both financial and extra-financial returns. This requires independence, professionalism, and transparency. These values serve as the foundation of business ethics and guide all Ethos activities in the realisation of the Foundation's two objectives.

The second part defines the framework for analysing the companies to be selected for the Ethos portfolios. It entails five principles, two principles of exclusions tied to products and behaviour of companies, two principles of inclusion as a function of the environmental, social and governance assessments but also as a function of their positive environmental and/or social impact, and, lastly, the principle tied to taking into account climate change.

Finally, the third and last part concerns the active exercise of the different shareholder rights attached to share ownership. Three principles are brought forward: systematically exercising voting rights at the general meeting of shareholders, engaging in dialogue with company management throughout the year as well as the rules for intensifying the active ownership measures taken (escalation). In fact, if the exercise of voting rights and the engagement do not bear fruit, the Ethos principles foresee different measures allowing for the intensification and expansion of its means for action.

The Ethos principles for Socially Responsible Investment

PRINCIPLE 1: ACT AS A RESPONSIBLE INVESTOR

Ethos seeks to conduct its activities according to best practice in business ethics. This means being independent, professional, and transparent in all of its activities. Aware of its fiduciary duty, Ethos aims to generate a long-term return for the institutional investors in its investment solutions.

PRINCIPLE 2: EXCLUDE COMPANIES WHOSE PRODUCTS ARE INCOMPATIBLE WITH THE VALUES DEFINED

Ethos excludes from its investment solutions companies whose products are incompatible with the values of the members of the foundation as listed in the Ethos Charter.

PRINCIPLE 3: EXCLUDE COMPANIES WHOSE CONDUCT SEVERELY VIOLATES THE FUNDAMENTAL PRINCIPLES DEFINED

Ethos excludes from its investment solutions companies whose conduct violates the fundamental principles of ethics and sustainable development.

PRINCIPLE 4: ASSESS COMPANIES ACCORDING TO ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE CRITERIA

In its investment solutions, Ethos prioritises investments in companies and debt issuers that receive an above average ESG assessment.

PRINCIPLE 5: CONSIDER CLIMATE CHANGE IN THE INVESTMENT POLICY

In its investment solutions, Ethos prioritises investment in companies with a low carbon intensity. Ethos bases its investment policy on the Ethos carbon rating of the companies and engagement concerning their environmental strategy, as well as the reduction and publication of the carbon footprint of its investment solutions.

PRINCIPLE 6: RATE COMPANIES BASED ON THEIR ENVIRONMENTAL AND SOCIAL IMPACT

In its investment solutions, Ethos prioritises companies that offer products and services with a positive impact from an environmental and/or social point of view. Ethos bases its investment policy on a methodology that identifies the sectors of activity considered to have a positive impact.

PRINCIPLE 7: EXERCISE SHAREHOLDER VOTING RIGHTS

Ethos systematically exercises its shareholder voting rights in line with its proxy voting guidelines based on best practice in corporate governance. The proxy voting guidelines and the proxy voting positions are published online.

PRINCIPLE 8: ENGAGE IN DIALOGUE WITH COMPANY MANAGEMENT

Ethos conducts a direct dialogue with companies listed in Switzerland on ESG issues and supports collaborative engagement initiatives in line with its Charter.

PRINCIPLE 9: INTENSIFY ACTIVE OWNERSHIP MEASURES WHERE NECESSARY

Ethos can intensify the active ownership measures by intervening at the general meeting of shareholders, filing shareholder resolutions, joining shareholder groups or going to court. These measures are taken when the dialogue is blocked and it is necessary to defend the long-term interests of shareholders and other stakeholders.





A. FIDUCIARY DUTY

1. Principle for responsible investment

PRINCIPLE 1: ACT AS A RESPONSIBLE INVESTOR

Ethos seeks to conduct its activities according to best practice in business ethics. This means being independent, professional, and transparent in all of its activities. Aware of its fiduciary duty, Ethos aims to generate a long-term return for the institutional investors in its investment solutions.

As an institutional investor aiming to achieve a financial and extra-financial return, Ethos has a fiduciary duty towards the beneficiaries in the advised investment solutions. In all of its activities, Ethos bases itself on the concept of sustainable development and on the Ethos Charter. The members of the boards and the Ethos employees commit to respecting the Ethos code of conduct which is grounded in the values specified in the Ethos Charter, which is in turn based on the concept of sustainable development. This implies a long-term vision, compliance with the highest business ethics standards and respect for all the stakeholders of Ethos.

In particular, Ethos guarantees the independence from the analysed companies, professionalism in all of its activities, as well as transparent information of all its different stakeholders.

1.1 INDEPENDENCE

The Ethos Foundation and the company Ethos Services are financed by institutional investors. Ethos is careful to remain independent from the analysed companies. In particular, Ethos does not accept advisory mandates from companies it analyses. In the case of an exception, the potential conflict of interest is communicated in a transparent manner.

All the entities tied to the Ethos Foundation through the use of the "Ethos" brand apply the Ethos code of conduct which notably specifies the business ethics principles according to which they conduct their activities.

1.2 PROFESSIONALISM

Ethos commits to a high-quality standard and professionalism in all of its activities. To this end, rigorous internal control measures have been put in place.

Ethos voluntarily submits itself to an ordinary financial audit which requires an internal control system. In addition, the board of Ethos Services has constituted an audit committee.

1.3 TRANSPARENCY

Ethos values transparent information for its members, respectively shareholders and society in general.

As a responsible investor, Ethos publishes detailed information on its own corporate governance as well as on its different products. In particular, the annual report and the financial statements of the Ethos Foundation and the company Ethos Services are public. All products are presented in a transparent manner. Regarding its proxy voting services, Ethos publishes its proxy voting guidelines in their entirety. The proxy voting recommendations for Swiss companies are disclosed online two working days before each general meeting of shareholders.



B.STOCK SELECTION

2. Principle of product-based exclusion

PRINCIPLE 2: EXCLUDE COMPANIES WHOSE PRODUCTS ARE INCOMPATIBLE WITH THE VALUES DEFINED

Ethos excludes from its investment solutions companies whose products are incompatible with the values of the members of the foundation as listed in the Ethos Charter.

Product-based exclusions apply to sectors considered incompatible with the values and aims of the Ethos Foundation.

As a rule, companies that generate 5 % or more of their turnover in one of the sectors listed below are automatically excluded from the investment solutions (funds and indices) proposed by Ethos.

Exclusion thresholds and criteria may, however, vary from one sector to another – in particular for regulatory reasons – and are therefore defined specifically and precisely for each of them.

Furthermore, when a company generates 5 % or more (or any other predefined threshold) of its turnover across several sensitive sectors, without any single sector reaching this threshold on its own, Ethos also reserves the right to exclude that company from its investment solutions (aggregation principle).

Finally, Ethos reserves the right to exclude a company when the reduction of its turnover related to a sensitive sector below a predefined exclusion threshold is not directly linked to a voluntary strategy, but results from other factors, such as fluctuations in commodity prices or temporary facility closures for maintenance purposes.

As a general rule, the exclusion thresholds set by Ethos apply to the products and services in question as defined, as well as to the production of components or services that are essential and specific to them, namely:

- Essential components or services: all products or services without which the activity targeted by the exclusion could not take place;
- Specific components or services: all products or services that are specifically and exclusively designed for the activity targeted by the exclusion. Any product or service with multiple or non-exclusive uses does not fall within this definition.

2.1 WEAPONS

The mass production of weapons generally runs counter to the principle of respect for human beings and poses the threat of large-scale environmental destruction. Although weapons can be used for legitimate defensive and peacekeeping purposes, their end use and final recipients are often difficult to determine. Ethos is convinced that its investments for sustainable development must not contribute to expanding this sector.

In international humanitarian law, a distinction is made between conventional and non-conventional weapons. Ethos excludes companies active in both conventional and non-conventional weapons from its investments.

2.1.1 CONVENTIONAL WEAPONS

DEFINITION

Conventional weapons refer to the production of weapons and directly related ancillary equipment used by combat and defence forces, in accordance with international humanitarian law. This includes the manufacture of strategic equipment (aircraft, missile warheads, rockets, etc.) and systems essential for the launch and guidance of missiles, as well as electronic defence equipment critical for the operation of such military hardware.

EXCLUSION THRESHOLD

Companies that generate 5 % or more of their turnover in this sector are excluded.

2.1.2 NON-CONVENTIONAL WEAPONS

DEFINITION

Non-conventional weapons refer to the production of weapons and ancillary equipment that are either expressly prohibited or do not respect the fundamental principles of international humanitarian law.

This category includes:

- **Illegal weapons**

These are weapons whose production and/or use are prohibited by international accords and conventions, such as the Treaty on the Prohibition of Nuclear Weapons, or weapons prohibited by the Swiss Federal Act on War Materiel. These include primarily chemical, biological, and nuclear weapons, as well as cluster munitions and anti-personnel mines.

- **Weapons that breach the fundamental principles of international humanitarian law**

In addition to the weapons listed above, this category includes primarily incendiary weapons and munitions containing depleted uranium or white phosphorus, among others. This is because these weapons do not permit the distinction between civilian and military objects, combatants and non-combatants, or cause unnecessary or superfluous suffering to combatants (principle of proportionality).

EXCLUSION THRESHOLD

Companies active in the production of such weapons are excluded regardless of their level of involvement or turnover.

2.2 TOBACCO

Because of the health problems associated with tobacco use, the costs of which are largely borne by civil society, Ethos does not wish to contribute to this sector and therefore excludes it from its investment solutions.

DEFINITION

The tobacco criterion covers the cultivation of tobacco and the production of cigarettes, cigars, and pipe tobacco, as well as companies whose primary activity is to trade in tobacco and/or to distribute unprocessed tobacco wholesale to cigarette manufacturers, and to sell tobacco directly to end consumers. This definition also includes the production of electronic cigarettes that may contain nicotine and smokeless tobacco (heated or oral tobacco products).

EXCLUSION THRESHOLDS

Companies active in the cultivation and production of tobacco are excluded regardless of their level of involvement or turnover.

Companies that generate 5 % or more of their turnover from the trading, wholesale distribution, or retail sale of tobacco are excluded.

2.3 GAMBLING

Because of the potentially destructive nature of gambling (organised crime, money laundering, etc.) and its negative impact on individuals and their families, Ethos excludes companies active in this sector from its investment solutions.

DEFINITION

The gambling criterion covers the operation of casinos, racecourses, online gambling and betting platforms, as well as the production of slot machines and the provision of credit on casino premises.

EXCLUSION THRESHOLD

Companies that generate 5 % or more of their turnover in this sector are excluded.

2.4 PORNOGRAPHY

Pornography is contrary to the principle of respect for human dignity and potentially destructive in nature (links with organised crime, discrimination, and sexual violence, etc.). Ethos therefore excludes companies active in this sector from its investment solutions.

DEFINITION

The pornography criterion covers the production of representations of sexually degrading acts that violate human dignity, as well as the active distribution of such material through various channels such as the media, shops, or the internet.

EXCLUSION THRESHOLD

Companies that generate 5 % or more of their turnover in this sector are excluded.

2.5 GENETICALLY MODIFIED ORGANISMS (GMO) IN THE AGROCHEMICAL INDUSTRY

Ethos considers that the development and/or production of GMOs represents a major risk to sustainable development and therefore excludes companies active in this sector from its investment solutions. This exclusion is based on several fundamental concerns: the risk of biodiversity erosion linked to the reduction in the genetic diversity of crops, as well as the negative social impacts on farmers – particularly in developing countries – resulting from their dependence on large agrochemical companies holding patents on these seeds.

DEFINITION

The GMOs criterion covers the development of genetically modified organisms and the production of transgenic seeds in the agrochemical sector. The exclusion does not apply to the medical field.

EXCLUSION THRESHOLD

Companies that generate 5 % or more of their turnover in this sector are excluded.

2.6 NUCLEAR ENERGY

Nuclear energy presents risks both in terms of the hazards related to the widespread dissemination of radioactive elements in the event of an accident and of the unresolved problem of nuclear waste passed on to future generations. Ethos does not want to promote this sector with its investments, as it presents major risks and has effects that may be a burden for several generations to come. Ethos therefore excludes it from its investment solutions.

DEFINITION

The nuclear energy criterion covers the production of nuclear fission energy, the construction and operation of nuclear power plants and reactors, the storage and reprocessing of radioactive waste, as well as the supply of nuclear fuel and uranium mining.

EXCLUSION THRESHOLD

Companies that generate 5 % or more of their turnover in this sector are excluded. Activities related to nuclear waste treatment, the decommissioning of power plants, and site clearance do not fall within the scope of the exclusion.

2.7 COAL

The extraction of coal and its use for electricity generation (from thermal coal) or steel production (from metallurgical coal) constitute one of the most significant sources of greenhouse gas (GHG) emissions, contributing substantially to global warming. As a result, the 2015 Paris Agreement, which aims to limit global warming to 1.5 °C above pre-industrial levels, implies that a large portion of the world's coal reserves will not be exploitable. Ethos therefore considers coal to represent an unacceptable environmental and financial risk and excludes it from its investment solutions.

2.7.1 COAL EXTRACTION

DEFINITION

The coal extraction criterion covers the exploration, mining, extraction, distribution, storage, and refining of coal.

EXCLUSION THRESHOLDS

Companies active in the development of new coal exploration and extraction projects – such as the creation of new mines or transport networks – are excluded regardless of their level of involvement or turnover.

In line with the European Union's Paris-Aligned Benchmarks (PAB) regulation, companies generating 1 % or more of their turnover from the exploration, mining, extraction, distribution, storage, or refining of coal, whether thermal or metallurgical, are excluded.

2.7.2 THERMAL COAL-BASED ELECTRICITY GENERATION

DEFINITION

The thermal coal-based electricity generation criterion covers all activities related to the use of coal for electricity production, including the construction, operation, and modernisation of coal-fired power plants.

EXCLUSION THRESHOLD

Companies that generate 5 % or more of their turnover in this sector are excluded.

2.8 LIQUID AND GASEOUS FOSSIL FUELS

Like coal, the combustion of gas and oil is one of the principal sources of GHG emissions and must therefore be significantly reduced to limit global warming to 1.5 °C.

2.8.1 OIL

Given the measures required to contain global warming today, Ethos considers oil to represent a significant environmental and financial risk and therefore excludes this sector from its investment solutions.

This also applies to service providers involved in the transport of oil by pipeline and the storage of conventional and non-conventional oil, who directly and actively contribute to the development of this energy source. This is primarily because the construction of such infrastructure raises serious concerns regarding environmental and health risks in the event of an accident, and because its development also infringes, in many cases, on the rights of indigenous communities.

DEFINITION

The oil criterion covers the exploration, extraction, storage, refining and distribution of liquid fuels, whether extracted by conventional or non-conventional means (for further information, see section 2.8.3).

EXCLUSION THRESHOLDS

Companies active in the development of new oil exploration, extraction, and energy production projects – such as the creation of new wells, pipelines, or oil-fired power stations – are excluded regardless of their level of involvement or turnover.

In line with the PAB regulation, companies generating 10 % or more of their turnover from the exploration, extraction, distribution (including retail), storage, and refining of oil are excluded.

2.8.2 GAS

Although gas emits less CO₂ per unit of energy than coal or oil, methane leaks throughout the supply chain contribute substantially to global warming, thereby reducing the apparent environmental advantage of this fuel. According to the Intergovernmental Panel on Climate Change, the methane released – particularly during extraction operations – has a warming potential that is approximately 25 times greater than that of CO₂. Given the measures required to contain global warming, Ethos considers gas to represent a significant environmental and financial risk and therefore excludes this sector from its investment solutions.

This also applies to service providers involved in the transport of gas by pipeline and the storage of conventional and non-conventional gas, who directly and actively contribute to the development of this energy source. This is primarily because the construction of such infrastructure raises serious concerns regarding environmental and health risks in the event of an accident, and because its development also infringes, in many cases, on the rights of indigenous communities.

DEFINITION

The gas criterion covers the exploration, extraction, storage, manufacturing, and distribution of gaseous fuels, whether extracted by conventional or non-conventional means (see section 2.8.3 for further information).

EXCLUSION THRESHOLDS

Companies active in the development of new gas exploration, extraction, and energy production projects – such as the creation of new wells, pipelines, or gas-fired power stations – are excluded regardless of their level of involvement or turnover.

In line with the PAB regulation, companies generating 50 % or more of their turnover from the exploration, extraction, storage, distribution (including retail), and refining of gas are excluded.

2.8.3 NON-CONVENTIONAL LIQUID AND GASEOUS FOSSIL FUELS

Given their substantially greater ecological impact compared with conventional liquid and gaseous fossil fuels, Ethos specifically identifies companies active in non-conventional fossil fuels: oil from oil sands, oil and gas extracted by hydraulic fracturing, in the Arctic, or in ultra-deep waters.

2.8.3.1 OIL SANDS

The extraction of oil from oil sands releases large quantities of greenhouse gases, leads to the destruction of ecosystems, and causes considerable air, water, and soil pollution. Despite the requirements of certain legislation and the commitments made by several companies, the rehabilitation and restoration of extraction sites has only been carried out for a very small proportion of the affected areas.

Definition

The oil sands criterion covers all activities related to the exploitation of this resource, including exploration, mining, the refining of bitumen into oil, and the storage and distribution of products derived from this process.

It also covers activities relating to heavy and extra-heavy crude oil, defined as crudes with a density, expressed in API degrees (American Petroleum Institute scale), of between 22° and 10° API for heavy crude oil, and below 10° API for extra-heavy crude oil.

Exclusion thresholds

Companies active in the development of new oil sands exploration and extraction projects – such as the creation of new mines, wells, pipelines, or storage facilities – are excluded regardless of their level of involvement or turnover.

Companies generating 5 % or more of their turnover from the exploration, extraction, distribution, storage, and refining of oil sands are excluded.

2.8.3.2 HYDRAULIC FRACTURING

Hydraulic fracturing enables the extraction of oil and gas trapped in low-permeability rock formations, of which shale is the most common type. This process is particularly energy-intensive owing to the continuous high-pressure pumping of fluids to these formations at great depth. In addition, the fracturing process generates significant atmospheric methane emissions, primarily attributable to methane leaks occurring during the commissioning of wells and along transport infrastructure. These emissions are a critical concern given their substantial global warming potential.

This process also gives rise to contamination of groundwater by potentially carcinogenic agents contained in fracturing fluids, as well as soil degradation and destruction. It also depletes water resources in affected regions, as the considerable volumes of water mobilised are largely unrecoverable after use. Finally, hydraulic fracturing may increase local seismic activity, owing to the mechanical disturbances induced in rock formations and the re-injection of wastewater into the subsoil.

Definition

The hydraulic fracturing criterion applies to all activities related to the exploration, extraction, refining, storage, and distribution of hydrocarbons obtained through this process, as well as to the production of equipment and technologies required for its application. It also covers the same activities as applied to coal bed methane, the extraction of which requires large quantities of water to be pumped into coal seams to release the gas.

Exclusion thresholds

Companies active in the development of new oil and gas exploration and extraction projects using hydraulic fracturing – such as the creation of new wells, oil pipelines, gas pipelines, or storage facilities – are excluded regardless of their level of involvement or turnover.

Companies generating 5 % or more of their turnover from the exploration, extraction, distribution, storage, and refining of hydrocarbons obtained through hydraulic fracturing are excluded.

2.8.3.3 ARCTIC OIL AND GAS

Drilling for oil and gas in the Arctic involves considerable operational and financial risks due to the extreme conditions of this region. An unintended oil spill would endanger its unique ecosystem and affect the ecological balance worldwide. In addition, weather conditions would make it very difficult to organise relief efforts and restore extraction sites.

Definition

The Arctic oil and gas criterion covers the exploration, extraction, refining, storage, and distribution activities – both offshore and onshore – of hydrocarbons in the region above the Arctic Circle.

Exclusion thresholds

Companies active in the development of new Arctic oil and gas exploration and extraction projects – such as the creation of new wells, oil pipelines, gas pipelines, or storage facilities – are excluded regardless of their level of involvement or turnover.

Companies generating 5 % or more of their turnover from the exploration, extraction, distribution, storage, and refining of Arctic oil and gas are excluded.

2.8.3.4 ULTRA-DEEP-WATER DRILLING

Ultra-deep-water drilling carries considerable environmental risks and requires massive investment that cannot be justified in light of already available oil reserves. The principal challenge facing the industry is managing the immense pressure that exists at such depths. The risks are also significant for workers on these platforms. Weather conditions at offshore wells make accidents difficult to contain, potentially generating massive pollution. Deep and ultra-deep-water drilling carries a high risk of marine pollution, as extreme conditions complicate the management of accidents and amplify their impacts on biodiversity. In the event of an accident, if emergency teams fail to rapidly contain a spill and limit its impact, a massive dead zone can appear in the middle of the ocean. Furthermore, the process of installing drilling equipment in ultra-deep waters causes damage to the biosphere. Toxic chemicals such as mercury are released into the water during oil extraction, and the seismic waves triggered by drilling are harmful to many marine mammals.

Definition

The ultra-deep-water drilling criterion covers the exploration, extraction, refining, storage, and distribution of oil and gas at sea at depths greater than 1'500 metres.

Exclusion thresholds

Companies active in the development of new oil and gas exploration and extraction projects through ultra-deep-water drilling – such as the creation of new wells, oil pipelines, gas pipelines, or storage facilities – are excluded regardless of their level of involvement or turnover.

Companies generating 5 % or more of their turnover from the exploration, extraction, distribution, storage, and refining of oil and gas through ultra-deep-water drilling are excluded.

2.8.4 CARBON-INTENSIVE EMITTERS

The generation of electricity from fossil fuels such as conventional and non-conventional coal, oil, and gas constitutes one of the major sources of GHG emissions. This activity must therefore be reduced significantly to limit warming to 1.5 °C.

DEFINITION

The carbon-intensive emitter criterion applies to companies active in the generation of electricity from liquid or gaseous fossil fuels – whether extracted by conventional or non-conventional means – whose carbon intensity in electricity generation exceeds 100 grams of CO₂ equivalent per kilowatt-hour (100 g CO₂e/kWh).

EXCLUSION THRESHOLD

Companies generating 50 % or more of their turnover from electricity generation that exceeds the 100 g CO₂e/kWh threshold are excluded.

3. Principle of conduct-based exclusion

PRINCIPLE 3: EXCLUDE COMPANIES WHOSE CONDUCT SEVERELY VIOLATES THE FUNDAMENTAL PRINCIPLES DEFINED

Ethos excludes from its investment solutions companies whose conduct violates the fundamental principles of ethics and sustainable development.

Exclusions tied to the conduct of a company are implemented when companies are implicated in controversies in terms of corporate governance or environmental and social responsibility. These are significant violations of normative criteria by their magnitude (severity of the impact), by their scope (extent of the impact) or by their irremediable nature.

In addition, regular breaches of international conventions signed by Switzerland or the ten principles of the UN Global Compact lead to the exclusion of a company. These are repeated violations of normative criteria, indicating a systematic failure of the management of the company, the tacit authorization of abuse, or even intentional abuse. Systematic violation is not the result of a one-time misbehaviour or isolated accident.

Listed companies are often multinational enterprises with a presence in multiple countries, either through their own operations or through their supply chains. In light of the impacts that these companies have on the economy, humans and the environment, it is important that they commit to respecting not only local laws but also the most important and universally recognised norms such as the Universal Declaration of Human Rights, the International Labour Organization Conventions, the OECD Guidelines for Multinational Enterprises, the UN Global Compact and the Rio Declaration on Environment and Development.

3.1 BUSINESS ETHICS

Business ethics is a necessary condition for the development of a stable and prosperous social and economic environment. Ethos believes that integrity should be a priority for the boards and executive managements of listed companies. The adoption of high standards in business conduct contributes to long-term growth and the convergence of economic, social and environmental objectives. Severe and repeated violations of business ethics principles can lead to the exclusion of a company.

EXCLUSION CRITERIA

Non-compliance with laws, corruption, distortions of free competition, misleading or false communication with the different stakeholders, money laundering, tax evasion or fraud, aggressive tax optimisation, fraud, abusive lobbying, or corporate complicity.

REFERENCES (NON-EXHAUSTIVE)

OECD Guiding Principles for Multinational Enterprises, UK Bribery Act, UN Convention against Corruption, UN Global Compact.

3.2 CORPORATE GOVERNANCE

Satisfactory corporate governance is fundamental for the appropriate functioning and continued existence of companies, in particular of listed companies where shareholders are often far removed from decision-making. This requires robust checks and balances to ensure the proper functioning of companies and financial markets. Non-compliance with certain fundamental principles of good corporate governance constitutes a major risk for shareholders and can thus lead to the exclusion of a company.

EXCLUSION CRITERIA

Multiple aspects of good corporate governance are not respected, in particular the poor protection of minority shareholders.

REFERENCES (NON-EXHAUSTIVE)

Corporate Governance Principles of the Ethos Foundation.

3.3 SOCIAL

Companies, in particular listed multinational enterprises which are active in a global environment, need to commit to socially responsible conduct. They need to respect national and international law, internationally recognized standards of best practice as well as human and labour rights. The respect for human rights must occur wherever the company operates directly but also in its supply chain, in particular when the company's sourcing represents a large part of the supplier's revenues. Human rights breaches in a company or in its supply chain can lead to the exclusion of a company.

EXCLUSION CRITERIA

Human rights breaches, discrimination, forced labour, child labour, impeding the freedom of association and the right to collective bargaining, poor and hazardous working conditions, and harm to World Heritage Sites.

REFERENCES (NON-EXHAUSTIVE)

UN Guiding Principles on Business and Human Rights, Universal Declaration of Human Rights, Conventions of the International Labour Organization, UN Global Compact, World Bank Group - Environmental, Health, and Safety (EHS) Guidelines.

3.4 ENVIRONMENT

Every company directly impacts the environment by using resources and producing waste, but also indirectly throughout the life cycle of its products from their development until their dismantling. Lack of respect for the precautionary principle in the production process or related to the use of the manufactured product can lead to exclusion of a company. In addition, companies which significantly contribute to global warming without taking meaningful action to mitigate their impact can also be excluded.

EXCLUSION CRITERIA

Major environmental damage, violation of the precautionary principle, outdated industrial production methods, non-conventional mining or oil production methods, contributing to global warming, quality of infrastructure, impacts on ecosystems and biodiversity.

REFERENCES (NON-EXHAUSTIVE)

Rio Declaration on Environment and Development, UN Global Compact.

4. Principle of environmental, social and corporate governance assessment

PRINCIPLE 4: ASSESS COMPANIES ACCORDING TO ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE CRITERIA (ESG)

In its investment solutions, Ethos prioritises investments in companies and debt issuers that receive an above average ESG assessment.

SRI is based not only on traditional financial metrics, but also integrates environmental, social and governance (ESG) criteria in its investment process.

Ethos evaluates the sustainability performance of a company by analysing its exposure to ESG risks, as well as how it manages these. The company strategy is analysed based on the transparency of the information provided, the clarity and coherence of its mission statement as well as the ambition and skill set of management. The Ethos ESG assessment is structured in three stages which are corporate governance analysis, analysis of the corporate strategy and analysis of its reporting. It takes into account the specific ESG risks faced by the different stakeholders.

4.1 CORPORATE GOVERNANCE

The corporate governance of a company is the sum of the rules that define the roles and relations between shareholders, the board, executive management, external auditor as well as the company's stakeholders. In a publicly listed company, it is of great importance that the corporate governance adheres to certain fundamental principles such as the separation of operational and supervisory functions, sufficient independence of the board, equal treatment of shareholders and a fair remuneration policy that does not lead to excessive risk taking by executive management.

Together with its proxy voting guidelines, Ethos publishes on a yearly basis its corporate governance principles which cover its expectations in terms of good corporate governance. These elements are an integral part of the Ethos ESG assessment.

4.1.1 BOARD OF DIRECTORS

The separation of functions (chairman and CEO) and the independence of the board are central elements of the Ethos analysis. This analysis is completed by a study of the composition and functioning of the board, notably in terms of skills and diversity of its members (gender, age, training, origin).

4.1.2 CAPITAL STRUCTURE AND SHAREHOLDER RIGHTS

The equal treatment of all shareholders (one share – one vote) is also a key principle of the analysis. The exercise of shareholder voting rights must be facilitated by the companies.

4.1.3 REMUNERATION

Remuneration systems are essential for aligning the interests of executive management with those of the shareholders. The remuneration system can strongly influence the behaviour and the decisions of executive management. For Ethos, putting in place an appropriate remuneration system is indispensable for ensuring executive management works in the best long-term interest of its shareholders and stakeholders.

4.1.4 BUSINESS ETHICS

Impeccable business ethics guarantee a healthy corporate culture which lends itself to business growth. Ethos considers the existence of a public code of conduct to be the first step in implementation of such a corporate culture. Ethos analyses the code of conduct's coverage of the risks and challenges facing the company as well as the manner in which the code of conduct is implemented.

4.2 COMPANY STRATEGY AND REPORTING

The Ethos ESG assessment evaluates the corporate strategy in terms of environmental and social responsibility. The existence of a sustainable development committee at the board or executive management level is a central element for ensuring that environmental and social issues are integrated at the highest level of the organisation. The company's participation in different sector initiatives aimed at improving corporate responsibility is also considered in the Ethos assessment.

The manner in which companies provide environmental and social information is also important. Ethos prefers that companies publish a sustainability report according to an internationally recognized reporting standard such as the GRI (Global Reporting Initiative). The reporting should contain a list of key performance indicators along with medium and long-term targets. The external verification of the sustainability report is also desired.

4.3 STAKEHOLDERS

Ethos analyses the manner in which the company manages its relations with the stakeholders listed below. The Ethos assessment takes into account the different challenges which companies face depending on their sector and size. The weighting assigned to the different stakeholders in the Ethos ESG assessment depends on the sector.

4.3.1 EMPLOYEES

Employees stand at the heart of a company and are crucial for efficient operations and long-term success. An occupational health and safety policy as well as a diversity and non-discrimination policy are basic essentials of corporate responsibility. Freedom of association and the right to collective bargaining and the application of the highest social standards are expected of a socially responsible company.

4.3.2 CLIENTS

The quality of products distributed to clients is fundamental for the company's long-term success. Products with innovative characteristics that support sustainable development are rated particularly highly. Ethos also analyses the way in which a company certifies the quality of its products and production processes. Finally, measures for the protection of client data have also become a priority for a socially responsible company.

4.3.3 SUPPLIERS

The notion of environmental and social responsibility refers to the entire value chain. Therefore, it is part of a company's responsibility to consider the risks associated with its supplier relations. This part of the value chain is particularly exposed to significant environmental and social risks which can lead to large costs for a company and its investors if they are not managed properly. Ethos believes that responsible companies adopt a sustainable supply chain policy which includes regular supplier audits to verify compliance with defined requirements.

4.3.4 CIVIL SOCIETY

Companies have an impact on civil society in countries in which they operate. Their impact is even bigger in developing countries where companies must show a greater responsibility to make up for potential administrative and regulatory deficits. Respect for human rights and for local communities is one of the key elements when analysing the conduct of the company regarding civil society. An analysis of the company's tax policy is also carried out. Transparent and detailed publication of the different tax rates which apply to subsidiaries (country-by-country reporting) is favoured.

4.3.5 ENVIRONMENT

Nature is often considered to be the "mute" stakeholder of a company. Every company directly impacts the environment by using resources and producing waste, but also indirectly throughout the life cycle of its products from their development until their dismantling. Certain sectors of the economy have more environmental impacts than others, such as the extractive, cement and oil & gas industries.

Whatever their sector and geography, companies should put in place an environmental management system (EMS) which allows measuring their impact and environmental footprint. In parallel, they should set quantitative targets, absolute and relative to drive the improvement of their environmental performance.

Ethos expects companies to do everything they can to preserve the natural environment, namely by committing to respect international conventions and by taking measures to limit their negative impacts. This not only allows companies to better manage risks related to the environment but also to take advantage of opportunities stemming from new technologies and innovative products.

4.4 DEFINITION OF THE ETHOS ESG RATING

The ESG assessment described under points 4.1 to 4.3 above contributes to the establishment of an Ethos ESG rating for each company analysed. To this effect, the extra-financial analysis is completed with a review of any environmental, social or corporate governance controversy the company may be involved in.

When one of these controversies is considered to be major, this leads to the exclusion of the company from the portfolio in accordance with principle 3 above.

The Ethos ESG rating allows Ethos to classify companies according to their relative ESG performance compared to their sector peers. When managing its investment solutions, Ethos uses its ratings to prioritize investments in the best performing companies in each sector (best-in-class approach).

5. Principle of considering climate change

PRINCIPLE 5: CONSIDER CLIMATE CHANGE IN THE INVESTMENT POLICY

In its investment solutions, Ethos prioritises investment in companies with a low carbon intensity. Ethos bases its investment policy on the Ethos carbon rating of the companies and engagement concerning their environmental strategy, as well as the reduction and publication of the carbon footprint of its investment solutions.

Ethos is of the opinion that the companies most exposed to the effects of climate change, or those which do not integrate these effects into their business model, incur significant risks in terms of their financial valuation and their long-term license to operate.

Given the risks tied to the purchase of shares or bonds of companies with a high carbon intensity, Ethos addresses climate change on four levels in its investment policy: analysing the specific climate change risks of companies (carbon rating), conducting a dialogue with companies in terms of their environmental strategy and publicly communicating and limiting the carbon footprint of its investment solutions.

5.1 CLIMATE CHANGE ASSESSMENT OF COMPANIES

Ethos produces a carbon rating of companies by analysing their direct and indirect carbon intensity as well as the companies' climate change strategy. Special attention is given to companies which are active in carbon intensive sectors, namely in the energy and construction sectors.

5.2 DIALOGUE WITH COMPANIES ON ENVIRONMENTAL ISSUES

As allocators of capital, investors have the duty and responsibility to conduct a dialogue with company management on the implementation of their environmental strategy. This strategy has to reflect the

environmental impact of each step of the value chain and the full lifecycle of its products. In addition, given the magnitude of the challenge, every company has the duty to publish its direct and indirect carbon emissions as well as its reduction targets.

Ethos systematically conducts a dialogue with companies on this topic.

5.3 REDUCTION OF THE CARBON FOOTPRINT OF THE PORTFOLIOS

For investors, reducing financial risk implies an active decarbonisation of their investments. This can lead to a divestment/investment strategy which suggests a transfer of capital towards clean energy and energy efficiency.

Ethos pays particular attention to the carbon intensity of its portfolios. To this end, a carbon filter is applied during the investment process in addition to the traditional environmental, social and governance analysis. This leads to the construction of portfolios whose carbon emissions are significantly lower than those of their benchmark.

5.4 COMMUNICATION OF THE CARBON FOOTPRINT OF THE INVESTMENT FUNDS

Responsible investors are expected to be transparent by publishing the carbon intensity of their portfolios. Thus, Ethos has signed the Montreal Carbon Pledge and communicates the carbon emissions associated with all its actively managed investment solutions. These metrics are compared with the carbon intensity of the overall market.

6. Principle of assessing the positive environmental and/or social impact of companies

PRINCIPLE 6: ASSESS COMPANIES ACCORDING TO THEIR ENVIRONMENTAL AND SOCIAL IMPACT

In its investment solutions, Ethos prioritises companies that offer products and services with a positive impact from an environmental and/or social point of view. Ethos bases its investment policy on a methodology that identifies the sectors of activity considered to have a positive impact.

In accordance with its Charter, the Ethos Foundation seeks to promote socially responsible investment. For Ethos, this means promoting investment in companies that offer products and services whose impact can be considered positive from an environmental and/or social point of view.

For this, ten economic activities considered to have a positive impact and play a key role in the transition to a more sustainable society have been defined (see below). Ethos identifies the percentage of turnover of companies active in the following sectors. The methodology and precise criteria for identifying companies active in these sectors are available on the Ethos website.

6.1 HEALTH AND WELLBEING

Health is essential to the prosperity of the global population. For Ethos, it is therefore a question of identifying and promoting investment in companies that make a significant contribution to improving health and, especially, access to health services throughout the world without harming society or the environment.

6.2 EDUCATION, TRAINING AND CULTURE

Education is a fundamental right and is essential for building human capital and developing a sustainable economy. Ethos' positive impact methodology aims to identify companies that are making a significant contribution to solving the education crisis while striving not to harm society or the environment. Given that access to this fundamental right is already highly subject to inequalities, Ethos will avoid creating new disparities by supporting accessibility and improvement of public rather than private education.

6.3 SUSTAINABLE ENERGY

Energy consumption is one of the main sources of greenhouse gases (GHGs) globally. In order to mitigate climate change and meet the Paris Agreement targets, governments have announced plans to achieve net zero emissions by 2050. This transition requires increasing renewable energy sources while significantly reducing carbon-intensive sources. Ethos' positive impact methodology aims to identify companies that make a significant contribution to a sustainable energy sector while striving not to harm society or the environment.

6.4 CIRCULAR ECONOMY

The traditional economic model, based on a linear “take-make-use-dispose” approach, puts excessive pressure on ecosystems, leads to a scarcity of resources, increases GHG emissions and generates a disproportionate pollution load. Conversely, the circular economy eliminates waste and pollution, conserves products and

materials, and regenerates natural systems. Ethos' positive impact methodology aims to identify companies that contribute to reducing the use of virgin or unsustainable materials, keeping products in use as long as possible or recovering materials present in waste in order to reuse them in a new product.

6.5 LOW CARBON MOBILITY

Transportation is one of the fastest growing sources of GHGs in recent years. It is therefore imperative to switch to a low-carbon transport system to limit global warming. Furthermore, the transport sector is also responsible for other negative impacts such as degradation of air and water quality, road accidents, noise pollution, heavy land use, acid rain or smog. Ethos' positive impact methodology aims to identify companies active in the manufacture and production of soft mobility vehicles, but also in the manufacture of low-carbon vehicles, infrastructure and mobility services.

6.6 POLLUTION CONTROL

Human activities lead to the introduction of contaminants into the natural environment. This air, water and soil pollution endangers ecosystems, biodiversity and public health. It reduces the ability of ecosystems to capture carbon and to self-decontaminate. Ethos' positive impact methodology aims to identify companies that make a significant contribution to the fight against pollution while striving not to harm society and the environment.

6.7 RESILIENT AGRICULTURE, AQUACULTURE AND SILVICULTURE

While some natural resources are renewable, the planet takes time to replace them, hence the need to build resilient ecosystem services to meet basic human needs within planetary boundaries. The Ethos positive impact methodology aims to identify companies that contribute to producing food, textiles, energy and materials through sustainable agricultural, aquaculture and forestry practices.

6.8 SUSTAINABLE REAL ESTATE

The construction and real estate industry not only has a considerable environmental impact (global warming, water use, etc.), but it also raises many social concerns (unsanitary conditions, etc.). Ethos' positive impact methodology aims to identify manufacturers of building

materials, engineering and construction companies, companies active in the renovation and insulation of buildings, investment and property management companies, manufacturers of building appliances and equipment, and possibly developers of affordable housing.

6.9 SUSTAINABLE WATER MANAGEMENT

Water is essential to life, healthy ecosystems and economic development. However, population growth puts pressure on water resources. It is therefore essential to respond to issues such as access to drinking water and sanitation, the effects of climate change on the water cycle and the pollution of water resources. Ethos' positive impact methodology aims to identify companies that make a substantial contribution to sustainable water management while striving not to harm society and the environment.

6.10 SUSTAINABLE FINANCE

Building a sustainable and inclusive financial system is a prerequisite for building a sustainable economy. Ethos' positive impact methodology aims to identify companies whose revenues from financial products are considered sustainable investments, whose revenues are derived from sustainable loan products, or whose revenues are derived from sustainable insurance products.





C. ACTIVE EXERCISE
OF SHAREHOLDER
RIGHTS

7. Principle of exercising shareholder voting rights

PRINCIPLE 7: EXERCISE SHAREHOLDER VOTING RIGHTS

Ethos systematically exercises its shareholder voting rights in line with its proxy voting guidelines based on best practice in corporate governance. The proxy voting guidelines and the proxy voting positions are published online.

The use of the rights provided to shareholders by company law is an integral part of the fiduciary duty of institutional investors and of the Ethos SRI principles. As a long-term investor, Ethos commits to voting at the general meeting of shareholders of the companies in its investment solutions. To this effect, Ethos formulates proxy voting positions for each agenda item in line with the Ethos corporate governance principles and proxy voting guidelines.

Ethos prepares voting recommendations for all of the Swiss companies included in the main index (SPI) of the Swiss Stock Exchange. These voting recommendations are applied by the Ethos investment solutions. In parallel, Ethos has set up a voting service for its members and clients (mainly pension funds and charitable organisations).

7.1 PROXY VOTING GUIDELINES

The Ethos corporate governance principles and proxy voting guidelines are based on international best practice as well as on the Ethos Charter focused on the concept of sustainable development. The guidelines also take into account local standards and practice in terms of corporate governance. The Ethos proxy voting guidelines are reviewed annually in order to take into account the latest regulatory and legal developments as well as evolving corporate governance best practice. The proxy voting guidelines are approved by the board of Ethos Foundation.

The Ethos corporate governance principles and proxy voting guidelines are available on the Ethos website.

7.2 DETAILED ANALYSIS OF THE GENERAL MEETING OF SHAREHOLDERS AND COMMUNICATION WITH THE COMPANIES

Ethos conducts a proprietary analysis of the agenda of listed Swiss companies and systematically exercises the voting rights attached to the shares held. The analysis of foreign companies is carried out by external service providers. Ethos implemented a systematic control framework to ensure alignment between the recommendations formulated by the external providers and the Ethos proxy voting guidelines. Before conducting its analysis and if needed to have the best possible understanding of the current situation of a company, Ethos contacts companies directly to ask for additional information. Afterwards, these discussions and meetings continue in a systematic manner.

Ethos informs each analysed Swiss company about its voting positions on each agenda item. However, the detailed analysis is communicated to the companies only after the general meeting of shareholders has been held.

7.3 TRANSPARENCY WHEN EXERCISING VOTING RIGHTS

Institutional investors manage the assets of third parties. Transparency when exercising voting rights is an integral part of the fiduciary duty of institutional investors and of the Ethos SRI principles.

Ethos publishes its voting positions on its website two working days before the general meeting of shareholders takes place.

8. Principle of engaging company management

PRINCIPLE 8: ENGAGE IN DIALOGUE WITH COMPANY MANAGEMENT

Ethos conducts a direct dialogue with companies listed in Switzerland on ESG issues and supports collaborative engagement initiatives in line with its Charter.

Conducting a high-quality and long-term dialogue with companies is at the heart of the Ethos approach. To this effect, Ethos conducts a direct dialogue with Swiss-listed companies, in order to systematically discuss ESG issues. For companies listed outside of Switzerland, Ethos focuses on indirect engagement by joining forces with other institutional investors and participating in collaborative engagement initiatives.

8.1 MONITORING OF PORTFOLIO COMPANIES

As an active investor, Ethos monitors the corporate governance level of portfolio companies as well as their awareness of environmental and social challenges. For Swiss companies the ESG monitoring is carried out internally. All companies in the Swiss Performance Index (SPI) are analysed. For the basic monitoring of non-Swiss companies, Ethos relies on external ESG data providers. An in-house analysis is done for the main ESG challenges as described in chapters 2, 3 and 4 of the Ethos SRI principles.

Ethos identifies the companies with potential for improvement in terms of ESG challenges and enters into a dialogue with these companies, either directly or collaboratively.

8.2 CONDUCTING A DIRECT DIALOGUE WITH COMPANY MANAGEMENT

The direct dialogue is conducted by Ethos for Swiss shares and for preselected non-Swiss shares in its investment solutions and as mandated by its programmes for corporate engagement (Ethos Engagement Pool (EEP) Suisse and EEP International). The ESG issues for

engagement are determined each year by the members of the pools. Ethos actively contacts the companies and commits to responding to each company that wishes to lead a dialogue with Ethos. The dialogue is carried out through letters and email, telephone conferences or in-person meetings.

To support its engagement activities, Ethos publishes papers on specific engagement topics with the aim to outline the expectations of institutional investors. Each year, Ethos prepares a report for the participants in the Ethos Engagement Pool – EEP. This report describes the activities, evaluates the progress made during the year and suggests if and how a dialogue should continue. The issues on which Ethos engages are communicated online on an annual basis.

8.3 INTERNATIONAL COLLABORATIVE ENGAGEMENT

In order to engage companies included in its international portfolios, Ethos collaborates with institutional investors in the country or the region where the company is domiciled in order to benefit from local knowledge and experience. Ethos regularly communicates with other institutional investors and participates in collaborative engagement initiatives. The objectives of the initiatives supported by Ethos must be in line with the Ethos Charter. Ethos management is responsible for selecting the initiatives to support and for compiling a detailed yearly report.

A specific engagement program (EEP international) allows other Swiss institutional investors to also support international initiatives by giving Ethos a mandate to select the most important collaborative engagement initiatives. When these investor initiatives target Swiss companies, Ethos aims to take on an active role.

9. Principle of intensifying active ownership measures

PRINCIPLE 9: INTENSIFY ACTIVE OWNERSHIP MEASURES WHERE NECESSARY

Ethos can intensify the active ownership measures by intervening at the general meeting of shareholders, filing shareholder resolutions, joining shareholder groups or going to court. These measures are taken when the dialogue is blocked and it is necessary to defend the long-term interests of shareholders and other stakeholders.

In case Ethos identifies problematic corporate governance structures and problematic activities of portfolio companies, a direct dialogue is initiated. In most cases, the dialogue is confidential. However, when the dialogue does not yield the expected results, Ethos takes steps to intensify the measures in use.

9.1 INTERVENTION AT THE GENERAL MEETING OF SHAREHOLDERS

Ethos can make public declarations before or during the general meeting of shareholders, for example in cases where the board refuses to take adequate measures to fix major flaws in the corporate governance or in the environmental and social responsibility of a company.

A declaration at the general meeting of shareholders might also be necessary to support the board, for example when a company becomes the target of investors with a short-term horizon who do not respect the interest of all stakeholders.

9.2 FILE A SHAREHOLDER RESOLUTION

If different measures taken do not produce any results and there is an overwhelming interest in changing a certain practice of a specific company, Ethos may file a shareholder resolution at the general meeting of shareholders. The same resolution can be filed at several companies to help evolve the general market practice of companies in terms of corporate governance or environmental and social responsibility.

9.3 UNITE WITH OTHER SHAREHOLDERS

In order for the dialogue to have more impact or to get more support for a shareholder resolution, Ethos can form and promote support groups made up of like-minded investors. The aim of such groups is to increase the pressure on company management by mobilising the investor community, civil society and potentially, government agencies.

9.4 TAKE LEGAL ACTION

When the long-term interests of the company and its stakeholders are at risk and none of the measures of intensification have borne fruit, Ethos reserves the right to take legal action to defend its long-term shareholder interests and those of the shareholders it represents.



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