Ethos' eight Socially Responsible Investment principles

>20 YEARS | OF SOCIALLY RESPONSIBLE INVESTMENT

The Ethos Foundation is composed of more than 220 Swiss pension funds and other tax-exempt institutions. Ethos was founded in 1997 and aims at promoting socially responsi-ble investment as well as a stable and prosperous socio-economic environment.

The company Ethos Services conducts asset management and advisory mandates in the field of socially responsible investment (SRI). Ethos Services offers investors a wide range of SRI-funds. The company also provides proxy voting reports in-cluding voting recommendations, a shareholder engagement programme, as well as sustainability and corporate governance ratings and analyses of listed companies. Ethos Services is owned by the Ethos Foundation and several of its members.

www.ethosfund.ch

Ethos' eight Socially Responsible Investment principles

2nd edition

Introduction

The **eight Ethos principles for Socially Responsible Investment** (SRI) define how Ethos understands socially responsible investment. They are based on the Ethos charter which in turn constitutes the guide for realising the two aims of 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 eight 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 type of the investor concerned.

The eight Ethos principles are intertwined and can be grouped in three parts. 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 four principles, two principles of exclusions tied to products and behaviour of companies, the principle of inclusion as a function of the environmental, social and governance assessments, 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.

Table of content

The eight Ethos SRI principles

- **Principle 1: Act as a responsible investor**
  As a socially 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 investors in its funds.

- **Principle 2: Exclude companies whose products are incompatible with the values defined**
  In the investment of its investment funds, Ethos excludes 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**
  In the framework of its investment funds, Ethos excludes companies whose conduct violates the fundamental principles of ethics and sustainable development.

- **Principle 4: Assess companies according to environmental, social and corporate governance (ESG) criteria**
  In the framework of its investment funds, Ethos prioritises investments in companies and debt issuers who receive an above average ESG assessment.

- **Principle 5: Consider climate change in the investment policy**
  Ethos prioritises investment in companies with a low carbon intensity. Its respective investment policy is based on the Ethos carbon rating of the companies and engagement concerning their environmental strategy, as well as the publication and reduction of the carbon footprint of its investment funds.

- **Principle 6: 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 7: Engage in dialogue with company management**
  Ethos conducts a direct dialogue with Swiss listed companies on ESG issues. Internationally, Ethos supports collaborative initiatives in line with its charter.
- **Principle 8: 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. INVESTOR FIDUCIARY DUTY

1 Principle of responsible investment

Principle 1 – Act as a responsible investor

As a socially 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. Conscious of its fiduciary duty, Ethos aims to generate a long-term return for the investors in its funds.

As an institutional investor aiming to achieve a financial and extra-financial return, Ethos has a fiduciary duty towards the investors in its funds. 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 towards 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 investors. Ethos is careful to remain independent from the analysed companies. In particular, Ethos does not accept consultant mandates from companies it analyses. In the case of an exception, the potential conflict of interest is communicated in a transparent manner.

All of 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 effect, sophisticated internal controls 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 puts value on the transparent information of its members, as well as its 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, the company Ethos Services and the association Ethos Académie are public. All products are presented in a transparent manner. Related to the services of exercising the voting rights, Ethos publishes its proxy voting guidelines in their entirety. The proxy voting recommendations are disclosed online two working days before the specific 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*
>
> *In the framework of its investment funds, Ethos excludes companies whose products are incompatible with the values of the members of the foundation as listed in the Ethos charter.*

The product-based exclusions relate to sectors considered to be incompatible with the values of the members of the Ethos Foundation.

As a general rule, companies that generate more than 5% of their turnover in one of the sectors listed below are excluded. However, the exclusion thresholds and criteria may vary from one sector to another and are determined specifically for each of them.

If a company generates less than 5% of its turnover in several sensitive sectors, Ethos reserves the right to exclude the company from its investments.

2.1 Weapons

The mass production of weapons interferes with the principle of respect for human beings and poses the threat of large-scale environmental destruction. Although weapons can be used for legitimate defensive reasons, 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 from its investments active in both conventional and non-conventional weapons.

2.1.1 Conventional weapons

Conventional weapons refer to the production of weapons and directly related ancillary equipment used by combat and defence forces and the use of which is permitted under international humanitarian law. It includes the manufacture of strategic equipment (aircraft, missile warheads, rockets), of the systems required to launch and guide missiles, and of the defence electronics without which such military equipment cannot be operated.

Exclusion threshold:

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

2.1.2 Non-conventional weapons

Non-conventional weapons refer to the production of weapons and ancillary equipment which are prohibited by the main international conventions and in the Swiss Federal Act on War Material. Most importantly, these are chemical, biological and nuclear weapons, as well as cluster munition.

The latter category includes:

- **Illegal weapons**
  These are arms whose production and/or use are prohibited by international accords and conventions and weapons prohibited by the Swiss Federal Act on War Material.

- **Weapons which breach fundamental principles of international humanitarian law**
  This relates mainly to the distinction between combatants and non-combatants as well as the prohibition of arms which do not distinguish between civilian and military objects or cause unnecessary or superfluous suffering to combatants (principle of proportionality).

Exclusion threshold:

Companies active in this sector 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 for the most part borne by civil society, Ethos does not wish to invest in and thereby contribute to this sector.

Definition:

The tobacco criterion refers to the production of cigarettes, cigars or pipe tobacco and includes firms whose primary activity is to trade in tobacco and/or to distribute unprocessed tobacco wholesale to cigarette manufacturers or similar activities.

Exclusion threshold:

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

2.3 Gambling

Because of the potentially destructive nature of gambling (organised crime, money laundering, etc.) and its impact on individuals and their families, the Ethos prefers not to invest in this sector.

Definition:

The gambling criterion refers to the operation of casinos and race courses, the production of slot machines, and to companies that lend money on casino premises.

Exclusion threshold:

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

2.4 Adult Entertainment

Adult entertainment 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 prefers not to invest in this sector.

Definition:

The adult entertainment criterion refers to the production of representations of sexually degrading acts that violate human dignity and to the active distribution of such content via channels such as the media, shops or the internet.

Exclusion threshold:

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

2.5 Genetically modified organisms (GMO) in the agrochemical industry

Ethos has decided to suspend investments in companies active in the development and/or production of GMO. Ethos justifies this decision with the precautionary principle, the hazards to biodiversity and the negative social impacts often tied to these production methods. The decision-making process included a detailed study of GMO and socially responsible investment (December 2001). The complete study can be downloaded in French or German from Ethos's website.

Definition:

The GMO criterion refers to agrochemical activities. It covers companies that actively promote GMO by developing and producing genetically modified organisms, transgenic seeds and in some cases related products. The exclusion does not apply to the medical field.

Exclusion threshold:

Companies that generate more than 5% 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.

Definition:

The nuclear energy sector comprises the activities of producing nuclear energy, constructing nuclear reactors, storing and reprocessing radioactive waste, and supplying nuclear fuel or uranium.

Exclusion threshold:

Companies that generate more than 5% of their turnover in this sector are excluded. If the share of turnover cannot be determined in a reliable manner, the exclusion applies to those companies whose nuclear power generation capacity exceeds 5% of their total power generation capacity.

2.7 Coal

The combustion of fossil fuels is one of the most significant anthropogenic sources of greenhouse gas (GHG) emissions causing climate change. The ratification of the Paris Agreement of 2015, which aims to limit temperature rise to well below 2° Celsius compared to pre-industrial levels, means that a large part of fossil fuel reserves will not be exploitable.

The extraction of coal and its use for electricity generation is one of the largest sources of greenhouse gas emissions, thus significantly contributing to global warming. Given the measures necessary to mitigate global warming, Ethos is convinced that coal is becoming an unacceptable environmental and financial risk.

Definition:

The term coal refers to the extraction of coal for energy production and the production of electricity from coal.

Exclusion threshold:

Companies that generate more than 5% of their turnover in this sector are excluded. If the share of turnover cannot be determined in a reliable manner, the exclusion applies to those companies whose coal-related power generation capacity exceeds 5% of their total power generation capacity.

2.8 Unconventional fossil fuels

Similar to coal, the combustion of oil and gas is one of the main sources of greenhouse gas (GHG) emissions. It should therefore be significantly reduced in order to limit temperature rises to well below 2° Celsius compared to pre-industrial levels. Ethos primarily excludes companies active in the extraction and use of unconventional fossil fuels. These activities present economic risks (stranded assets) and have a far greater environmental impact than conventional fossil fuels.

Initially, the exclusion will apply to companies active in the extraction and use of the following unconventional fossil fuels: oil from oil sands, shale oil and gas and oil and gas from the Arctic. Given their crucial role in the development of these activities, Ethos also excludes the companies involved in the transport of such energy sources through oil and gas pipelines.

2.8.1 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 specified in some legislation and the commitments made by several companies, the rehabilitation and restoration of the extraction sites has only been carried out for a very small part of the affected areas.

Definition:

The oil sands criterion refers to the extraction of oil sands and the processing of oil sands into oil.

Exclusion threshold:

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

2.8.2 Shale gas and oil

The process of shale gas and oil extraction requires large amounts of energy and water as well as the use of chemicals, which cause significant GHG emissions. The hydraulic fracturing (fracking) needed to extract shale gas and oil leads to groundwater contamination, soil degradation, high levels of air pollution and water scarcity in the affected areas. Fracking can also increase the risk of earthquakes. In addition, a considerable amount of gas is released into the atmosphere during the extraction process. These shale gases consist mainly of methane, whose impact on global warming is approximately 25 times greater than that of CO_2.

Definition:

The criterion shale gas and oil refers to the extraction of crude oil and gas from shale rock by hydraulic fracturing.

Exclusion threshold:

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

2.8.3 Arctic oil and gas

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

Definition:

The Arctic oil and gas criterion refers to the extraction and exploitation of oil and gas in the Arctic.

Exclusion threshold:

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

2.8.4 Transport of unconventional fossil fuels in oil and gas pipelines

Service providers for the transport of unconventional fossil fuels in oil and gas pipelines contribute directly and actively to the development of these energy sources. In addition, the construction of oil and gas pipelines often violates the rights of indigenous people. Furthermore, their construction and use gives rise to considerable concerns about the environmental and health risks in the event of a possible accident.

Definition:

This criterion refers to developers and operators of oil and gas pipelines for unconventional fossil fuels.

Exclusion threshold:

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

3 Principle of conduct-based exclusion

Principle 3: Exclude companies whose conduct severely violates the fundamental principles defined

In the framework of its investment funds, Ethos excludes 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 major controversies in terms of corporate governance or environmental and social responsibility. In particular, systematic breaches of international conventions signed by Switzerland or the ten principles of the UN Global Compact lead to the exclusion of a company.

Listed companies are often multinational enterprises with a presence in multiple countries, either through 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 universally recognised norms such as the Universal Declaration of Human Rights, the ILO 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 (not 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 (not 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 (not 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, hazardous industrial production methods, non-conventional mining or oil production methods, contributing to global warming, safety of infrastructure, impacts on ecosystems and biodiversity.

References (not 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 (ESG) criteria

In the framework of its investment funds, Ethos prioritises investments in companies and debt issuers who receive an above average ESG assessment.

Socially responsible investment (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 from supervision 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 a integral part of the Ethos ESG assessment.

4.1.1 Board

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 find out if practices match 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 must 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 measurements that limit their negative impacts. This not only allows to better manage risks related to the environment but also to profit from 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. 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 to classify companies according to their relative ESG performance compared to their sector peers. When managing its investment funds, 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

Ethos prioritises investment in companies with a low carbon intensity. Its respective investment policy is based on the Ethos carbon rating of the companies and engagement concerning their environmental strategy, as well as the publication and reduction of the carbon footprint of its investment funds.

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 publically communicating and limiting the carbon footprint of its investment funds.

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 Dialog 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 the lifecycle of its products. In addition, given the magnitude of the challenge, every company has the duty to publish its 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 an investor, reducing financial risk implies an active decarbonisation of his investments. This can lead to a divestment/investment strategy which suggests a transfer of capital towards renewable energy and energy efficiency.

Ethos pays particular attention to the carbon intensity of its investment funds. 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

The responsible investor is called upon to be transparent by publishing the carbon intensity of his investment funds. Thus, Ethos has signed the Montreal Carbon Pledge and communicates the carbon emissions associated with all its actively managed investment funds. These metrics are compared with the carbon intensity of the benchmark.

C. ACTIVE EXERCISE OF SHAREHOLDER RIGHTS

6 Principle of exercising shareholder voting rights

Principle 6 – 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 shareholder 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 funds. 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 funds. In parallel, Ethos has set up a voting service for its members and clients (mainly pension funds and charitable organisations).

6.1 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 Ethoswebsite.

6.2 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.

6.3 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 investor 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.

7 Principle of engaging company management

Principle 7 – Engage in dialogue with company management

Ethos conducts a direct dialogue with Swiss listed companies on ESG issues. Internationally, Ethos supports collaborative 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 environmental, social and governance (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.

7.1 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.

7.2 Conducting a direct dialogue with company management

The direct dialogue is conducted by Ethos for Swiss shares in its investment funds and as mandated by its programme for corporate engagement (Ethos Engagement Pool – EEP). The ESG issues for engagement are determined each year by the members of the pool. 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.

7.3 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.

8 Principle of intensifying active ownership measures

Principle 8 – 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 difficult 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.

8.1 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.

8.2 File a shareholder resolution

If different measures taken do not produce any results and 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 files at several companies to help evolve the general market practice of companies in terms of corporate governance or environmental and social responsibility.

8.3 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.

8.4 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.

Ethos
Place de Cornavin 2
P.O. Box
1211 Geneva 1
Switzerland

T + 41 (0)22 716 15 55
F + 41 (0)22 716 15 56

Zurich office
Bellerivestrasse 3
8008 Zurich
Switzerland

T + 41 (0)44 421 41 11
F + 41 (0)44 421 41 12

info@ethosfund.ch
www.ethosfund.ch