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Active Ownership Report 2021

LGT Sustainable Fixed Income Strategies

"Engagement is a two-way dialogue which allows us to express our expectations as a sustainable investor, while also providing companies with the opportunity to offer further clarification and insight into their ESG practices and aspirations."

Contents

Active ownership: integral pillar of holistic ESG integration

Pursuing active ownership is a vital part of LGT Capital Partners' ("LGT CP") investment approach for Sustainable Fixed Income Strategies, representing one of four pillars to integrate environmental, social and governance ("ESG") considerations into the investment process. It is our responsibility as sustainable investors to use our position to try and influence the behaviors of companies to act in the most favorable way for society, investors and other relevant stakeholders. Our efforts cover a wide range of issues, including strategy, financial and non-financial performance and risk, capital structure, ESG debt, social and environmental impact and corporate governance.

It is part of our philosophy that engagement is conducted by sector specialists within the Sustainable Fixed Income investment team, who carry out both fundamental and ESG research. For specific cases and topics of mutual coverage, we actively collaborate with our Sustainable Equities team, in order to magnify our impact and weight in the desired direction of engagement. We believe that the combined assessment allows the analyst to have a holistic view and deep understanding of a firm's risks and opportunities. Since 2009, the Fixed Income investment team has been managing sustainable strategies. Therefore, engaging in dialogue with companies on ESG matters has been part of the investment process for more than 10 years. However, as our tools and processes have evolved, we continue to enhance how we conduct and monitor engagements. For example, in 2015 we began systematically monitoring negative news flow using data by specialist provider RepRisk. RepRisk continuously screens over 90,000 publication channels in 20 languages worldwide. Controversies identified through these news items allow us to identify negative developments in a timely manner and to focus our efforts on specific, relevant issues for reactive engagement. Two years ago, we integrated a proprietary engagement tool into the team's research platform, enabling us to better consolidate and track engagement activities. It is therefore our ambition to provide further data granularity in the upcoming years.

In the following pages, we are pleased to report on the engagement carried out by LGT CP's Fixed Income investment team on behalf of our investors during 2021.

Our engagement statistics for 2021 show that significant proportion of engagements happened with European companies, since European corporates are at the forefront of sustainability implementation and communication. In addition, a large proportion also suggests engagement milestone 2: "establishing dialogue has been achieved". This is a typical development as a lot of companies not only in Europe, but globally have only recently begun to explore ESG more seriously, with many only introducing new frameworks in the last 12–18 months.

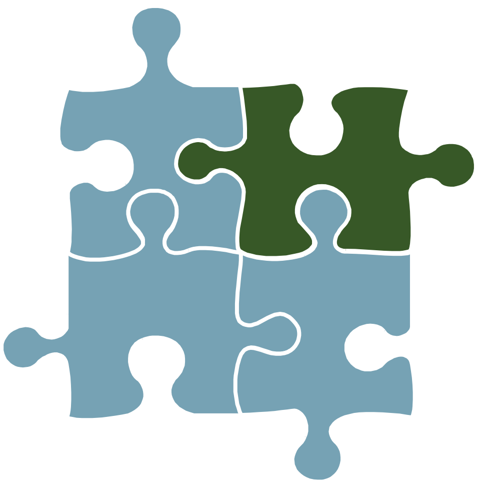
Holistic approach, engagement and proxy voting – one pillar of our ESG activities

Exclusions

- Activity based: exclusion of certain harmful sectors
- Conduct-based: exclusion of UN Global Compact violators
- Worst-in-class (exclusion 4th quartile)

ESG factors

- Quantitative and qualitative assessment
- Combining business operations and product/service impact
- Integration of controversies and negative news flow



Active ownership

- Proactive dialogue with companies
- Reactive engagement on potentially adverse developments
- Collaborative initiatives
- Push for green financing

Measuring and reporting

- Environmental footprint
- ESG scores
- Benchmark comparison
- SDG impact
- EU taxonomy
- Controversy score

Source: LGT Capital Partners

Our approach to active ownership

Through engagement we put into effect our stewardship responsibilities in line with the PRI Principle 2, to be active owners and incorporate ESG issues into our ownership policies and practices. The UN Principles for Responsible Investment ("PRI") highlighted three ESG engagement dynamics that are meant to create value and include the communicative dynamic (exchange of information), learning dynamic (enhancing knowledge) and political dynamic (building relationships). Regarding performance, we intend to generate investment outperformance by driving change with respect to a company's governance, capital allocation or business practices.

In line with the Investor Forum white paper (initiative for collective engagement), we base our engagement process on long-term value preservation and creation. This means a close understanding of the nature of the company and the drivers of its business model, having clear objectives, and being focussed on effective change. In addition, it is important to have direct and honest messages and dialogue, be appropriately resourced, use resources efficiently so that engagement coverage is as broad as possible, and reflect on activities so that lessons are learned to improve future engagement activity.

Somewhat contrary to the equity markets, the core value proposition of ESG integration in corporate credit emphasizes risk mitigation. While equity investors might look for long-term upside, credit investors are generally concerned about the return of principal and payment of interest. As such, while a stock's price theoretically discounts projected cash flows well into the future, or even perpetuity, much of the long-term ESG value creation in equities falls outside the purview of fundamental credit analysis.

The assessment of credit risk is more often driven by shorter term ESG considerations, such as event risk linked to ESG. It is important to determine which ESG factors are material, differentiating between explicit factors – which can drive downside risk to fundamentals – and implicit factors – which can be key drivers of event-based risk. Both types of factors can have an impact on credit fundamentals as well as access to capital markets, which are seen as a key risk area, particularly with regard to implicit factors such as market sentiment on ESG themes.

An important ESG factor worth noting is that Fixed Income products such as ESG-labelled bonds enable a direct investment in transition or Greenhouse Gases reduction ("GHG-reduction") projects. Bond valuations in the future will increasingly be driven by structural trends such as flows into and out of ESG-friendly and – unfriendly assets, regulation of ESG disclosures, and regulation with regards to decarbonization.

There are two main transmission mechanisms for ESG impacts: 1) via bottom-up credit fundamentals and 2) via top-down market technicals and sentiment. Explicit ESG factors can have direct impacts on financials, which will in turn impact credit risk and access to capital markets. The materiality of ESG factors is magnified when extending the credit curve, and the difference in considerations for investment in short tenors vs. long tenors can drive shifts in the steepness of issuer credit curves.

Our credit research portal contains not only ESG information on issuers, but also a database of ESG-labelled bonds summarizing our ESG-assessment of each single issuer. Engagement in the Fixed Income space also involves green financing and we were one of the first asset managers to publish a dedicated Fixed Income Engagement report.

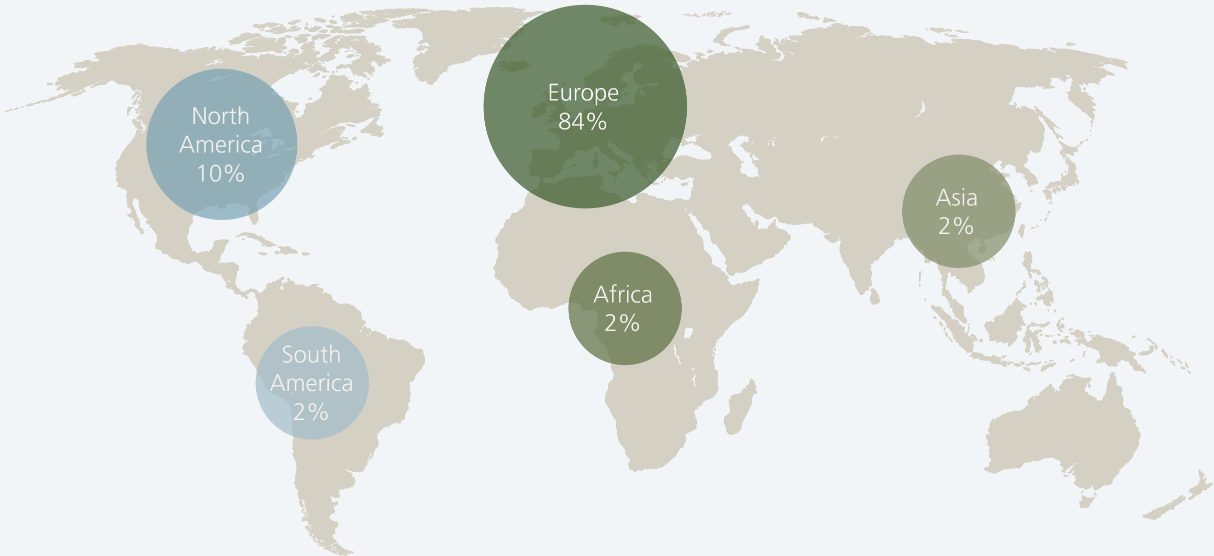
ESG-Portfolio construction in Fixed Income aims to combine high ESG scores and positive impact data with a high share of ESG-labelled bonds. 2021 was another record year in the issuance of ESG-labelled bonds with global supply more than doubling versus 2020. Sustainability-linked bonds in particular are gaining considerable market share, having made up over 20% (2020: 4%)* of ESG-labelled issuance globally, while green bonds remained the dominant security type representing around 57%. While we look closely at each ESG financing framework, we remain very selective given rich valuations and green washing risks. Internally, we have developed an assessment for Green/Social/Sustainability/Sustainability-Linked ("GSSSL") bonds which is also used as an important basis for engagements with the issuers.

*Source: Bloomberg, Dealogic

Fixed Income overview 2021

58	53	14
Incidents of engagement	Companies engaged with	Countries engaged in

Geographical split and selected examples[1]



Citigroup Inc

A detailed discussion took place about the group's social bond framework in advance of new instruments with dedicated use of proceeds for microfinance through Citi's partner organizations in Emerging Markets. We assessed the ESG and credit merits of the proposition and ended up investing in the new issue.

Berlin Hyp AG

An issuer of one of the first KPI-linked bonds in Germany from the financial sector, basing its methodology on proprietary calculations of carbon impact reduction, audited by a reputable third-party. We did not participate as investors after analyzing the issue from a credit perspective, in addition to the insufficient incentives that the instrument provided from an ESG and carbon footprint perspective.

Covivio

Company provided an update on its green bond programme and the attractiveness of issuing SLBs going forward as green bonds require a certain degree of complexity at the projects level. SLBs also allow companies to think of ESG at the portfolio/corporate level and fit with larger targets.

Repsol

We discussed lessons learned from the company's inaugural green bond issuance in 2017 which caused a lot of controversy, as well as the company's new plans to issue sustainable debt again. The new projects to be financed sound much more sustainable and suitable for an ESG-labelled bond and include renewables, biofuels and electro mobility. Further topics were Repsol's plans for CO_2 reduction in scope 1,2 and 3, and the strategy of transition from fossil materials to circular and renewable materials (input and output).

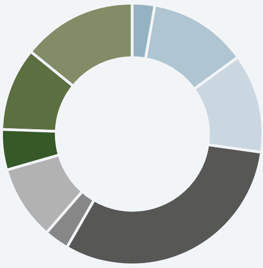
Knorr Bremse

We presented our ESG-labelled bond assessment tool and pushed for a diversification of the company's financing structure into green bonds. Knorr Bremse pointed out that the company is analysing its opportunities in the sustainable financing market and still needs to identify capex that qualifies for this asset class. The sourcing of materials, notably recycled, reused and remanufactured input, was another topic we discussed in relation to the overall circular economy focus.

Source: LGT Capital Partners

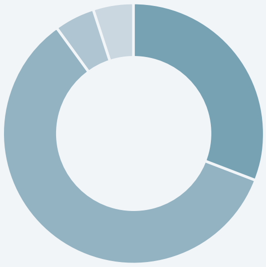
[1] Where the engagement topic pertains to a specific issue in a specific country, this country is used. Otherwise, or where multiple topics are addressed, the location of the headquarters is used.

Sector



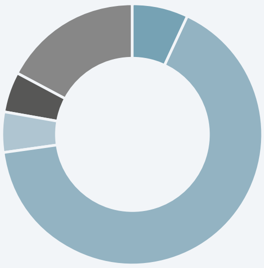
Consumer discretionary	3.0%
Consumer staples	12.0%
Energy	12.0%
Financials	31.0%
Health care	3.0%
Industrials	9.0%
Real estate	5.0%
Materials	10.0%
Utilities	14.0%

Category



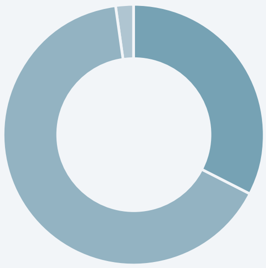
Overlapping ESG	31.0%
Environmental	59.0%
Social	5.0%
Governance	5.0%

Status



Milestone 1: Initial communication sent to the engagement company	7.0%
Milestone 2: Dialogue established	66.0%
Milestone 3: Company commits to address issue	5.0%
Milestone 4: Company develops a strategy to address issue(s)	5.0%
Milestone 5: Issue(s) resolved/strategy effective	17.0%

Response quality[2]



Good	33.0%
Standard	66.0%
Poor	2.0%

Frequent topics of engagement

Environmental	Social	Governance
Renewable energy	Diversity	Board composition
Alternative fuels	Innovation management	Executive compensation
Green-house gases	Community engagement	Corruption and bribery
Palm oil	R&D	Supply chains
Product safety	Supplier tracebility	
Green bond	Child labor	
Circular economy	Human rights	
Recycling	Employees rights	
eMobility	Labor practices	
Water management	Social bond	
Energy transition	Microfinance	
Sustainability-Linked bond		
Climate stress tests		

ESG bonds
EU taxonomy
Reporting
Targets
Science Based Targets
ICMA framework

Source: LGT Capital Partners

[2] Good: company responded with detailed response on specific issues addressed and/or was open to actively engaging in dialogue on the matter. Standard: company provided answer to topics addressed and referred to relevant documents available for further information on actions taken. Poor: company responded but provided generic response, avoided the specific questions asked, referred to generic documents and has shown little commitment to addressing the issue.

Focus topic: circular economy

Introduction

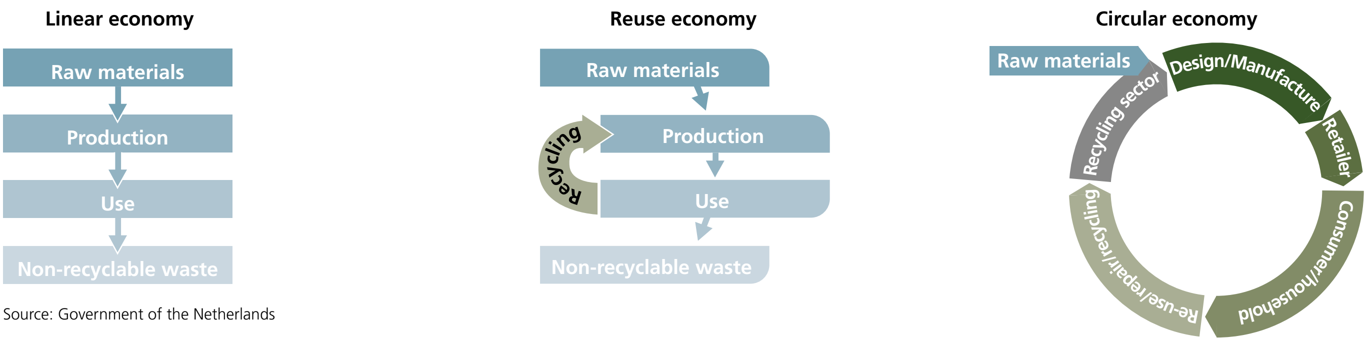
For 2021 we identified the topic of "Circular Economy" as a relevant ESG engagement topic for our investment universe. When confronting the various sustainability challenges the world faces, the circular economy is a multifaceted approach that could contribute positively and significantly. Transitioning to a circular model is critical to reducing environmental degradation while also delivering on future competitiveness. The concept promotes the elimination of waste and the continual safe use of natural resources. A circular economy promotes a reuse, repair, remake and recycle economic model that reduces virgin material consumption, avoids energy consumption and CO_2 emissions related to raw materials extraction and goods production, and reduces the pressure from waste and associated pollution. A circular economy aims to do all of this while creating employment and preserving some economic growth potential. We identified sectors that materially contribute to the 'take-make-dispose' approach of production and consumption such as Packaging & Paper, Food and Retail and present more detailed engagement examples in this report. Within those, we seek to identify leaders and laggards and to use our engagement to positively influence corporates in their circular economy related activity. In order to have a productive engagement dialogue, we used circular economy principles provided in scientific research literature. The circular economy transition increasingly points to the need for a change in corporate culture, namely towards sustainability, as Salvioni and Almici pointed out in their 2020 research paper. To drive this change, they conclude that stakeholder engagement and the review of traditional business models are important factors in the circular economy transformation and enhancement of economic, social, and environmental dimensions.

The European Commission's 2020 Circular Economy Action Plan is aimed at accelerating the transformational change required by the European Green Deal while building on circular economy actions implemented since 2015. The plan presents a set of interrelated initiatives (notably on product design, production, consumption, packaging and recycling, including food and construction) to establish a strong and coherent product policy framework that will make sustainable products, services and business models the norm and transform consumption patterns so that no waste is produced in the first place.

Problematic packaging

Plastics have played an integral role in the modernization of our society, offering substantial benefits vs alternative materials, such as lightweight and barrier properties, malleability and resource efficiency. This has driven increasing usage of plastics across many consumer applications, resulting in lower cost, lower carbon emissions and lower food wastage. However, recycling, packaging and notably the plastic problem are major topics relating to the circular economy. Lightweight, versatile and durable, plastic is everywhere in modern society. Yet one of plastic's greatest strengths is also its greatest weakness – it's not degradable and a large volume is lost to landfill or the environment. The waste is often mismanaged (especially in EMs), ending up in oceans and open waste dumps. Growing middle-class populations, and thus higher demand for plastics, have intensified the problem. But also in developed markets where collection infrastructure is robust, recycling rates remain low. Several countries are banning single-use plastic items. While these items are supplied in large numbers, they are low in weight and a complete phaseout of these items globally implies only 3% of global plastics demand according to Goldman Sachs. Replacement of plastics with bioplastics and traditional alternatives (e.g. metal and glass) is a priority. While Bioplastics are included in the EU's Circular Economy Action Plan stating that a policy framework will be developed, volumes are currently quite small, and they require specific environmental conditions to degrade. Traditional alternatives are most likely to replace PET bottles (7% of plastic demand) due to rising consumer perception risk. Concerted efforts in waste management are required from all stakeholders such as consumers (self-sort waste), governments (economic incentives) and companies across the plastics value chain (packaging redesign to make plastics recyclable). Such a focus could help improve recycling rates and reduce the share of landfill in waste management.

Transformation of business models



Source: Government of the Netherlands

The circular economy

The circular economy has emerged as a potential solution to make better use of resources. Positioned as a technology-focused concept that can generate economic gains while alleviating pressure on the environment, the circular economy has had a positive reception by organizations in public, private and civic sectors and, increasingly, academia alike. A study by Salvioni and Almici from 2020 emphasized key principles such as the reuse of resources according to a continuous circular process (involving design, production/remanufacturing, distribution, use, reuse, repair, collection, and recycling) as opposed to the traditional linear "extract-produce-use-dump" approach. Materials preservation is an important part of the concept, either by lengthening the product life or changing the belief that obsolescence (in functional, economic, regulatory, technological, and aesthetic terms) necessitates discarding the product. The circular economy model also advocates increasing convergence toward a zero-waste situation, the promotion of "low-impact" growth to reduce greenhouse gas emissions, and the use of sustainable and non-toxic materials. These conditions underline the close relationship between the circular economy and corporate culture. As a result, stakeholder engagement is seen as a useful approach to promote changes to corporate culture, practice sustainability principles, and satisfy economic, social, and environmental expectations.

Principles and Engagement Strategy

In order to structure our engagements with corporates, we looked for a basic structure to build a questionnaire to compare the circular economy efforts of various companies. To do this we used the nine principles of circular economy from the German Federal Environment Agency. The nine interlinked principles have been developed to systematically define objectives, scope and maxims for action, important parameters, requirements and success factors.

1 Definition: The circular economy is part of a resource efficient, sustainable way of life and management, encouraging the implementation of the UN's agenda 2030 for sustainable development and respecting planetary boundaries.

2 Scope: The circular economy encompasses all phases of material and product life cycles, going beyond waste management in its scope. It must be viewed from a global perspective in terms of raw material, goods and waste flows with their environmental and social effects.

3 Objectives: The circular economy helps to protect natural resources and the climate, as well as the environment and human health, following the precautionary principle. In addition, it aims at securing raw material supplies. The circular economy is meant to reduce negative impacts along the life cycle of materials and products (economising primary materials and substituting them with secondary materials) and of waste generation and waste management.

4 Measuring expenditure: The expenditure for circular economy measures should be compared to the expenditure of the primary raw materials industry with associated environmental impact, including external social and environmental costs, for producing the same materials or materials or goods fulfilling the same function.

5 Material cycles: The circular economy is aimed at managing materials in same or higher value cycles so that primary materials can be replaced by secondary materials of suitable quality, thus economising on primary material.

6 Prevention: Avoiding the generation of waste and residual materials is generally preferable to recycling, as the latter is always associated with loss of material and the use of energy.

7 Design: Designing products for a circular economy means retaining the functional and economic value of products, their components and materials as long as possible in order to minimize negative impacts on humans and the environment.

8 Pollutants: Corporates must avoid placing products on the market that contain substances that have an adverse effect on the public interest and, in particular, on human health and the environment.

9 Responsibility: In a circular economy, all players within product life cycles and along material value chains bear responsibility for achieving the objectives of the circular economy.

The circular economy can contribute positively to most of the sustainable development goals, but it should not be fixated on technological solutions, and must broaden its scope from closed-loop recycling and short-term economic gains towards a transformed economy that organizes access to resources to maintain or enhance social well-being and environmental quality.

Smurfit Kappa* – circular economy green bonds

Smurfit Kappa is Europe’s leading manufacturer of containerboard and corrugated containers as well as specialty packaging which, according to the company, is already operating within a circular business model. In general, the paper and paper-packaging industry is a fairly large consumer of energy and water in the production processes. However, Smurfit Kappa is regarded as a leader in the environmental sustainability transition in Europe. In 2020, the company raised its 2030 CO_2 reduction target to 55% (from 40%), relative to the 2005 baseline (its aim is net zero fossil emissions by 2050). The company has also raised its target in terms of certified sustainable raw materials to 95% by 2025 (from 90%) and plans to reduce the water intake of its paper and board mills. In September 2021, the company issued its inaugural circular economy green bonds. Use of proceeds are associated with the sustainable and responsible production of circular paper-based packaging products (reclamation/recycling of used fibres; paper milling; packaging conversion), and certified sustainable forests and purchasing costs of responsibly sourced raw materials or ingredients (such as wood, pulp, paper, recovered paper). In Sustainable Development Goals (“SDG”) terms this notably relates to “Responsible Consumption and Production” (SDG 12) and “Life on Land” (SDG 15).

In our engagement discussion with the company we focussed on green bonds, the share of recycled products in the production process, supply chains, and water and energy consumption. While Smurfit Kappa generally uses 100% renewable and sustainably sourced primary raw materials, around 75% of the raw material is recycled fibre and 25% is virgin fibres. The recycled fibre is sourced from post-consumer waste streams. While the company cannot set a fixed target to increase the share of recycled raw material, it is important to note that producing corrugated packaging using only recycled fibres is not possible. Used fibres can only be recycled a limited number of times, so to maintain an optimized recycling system and product quality/stability, the company needs fresh fibres. The rate is also affected by differences due to countries’ varying recycling systems. Organic by-products are used as biofuel, and reuse fibres are separated by water-treatment in the papermaking process. Deliveries of recovered paper also contain other materials such as metal, plastic, textiles, wood and sand, that Smurfit cannot use in its processes. Wherever possible, the company collaborates with local organisations to find alternative uses for these. Regarding water consumption, the company states that over 90% of the withdrawn water is treated and returned to nature, combined with the target to reduce water consumption by 1% per year. Smurfit Kappa is also involved in a hydrogen project focussing on renewable energy storage. The project at the company’s paper mill in France experimentally uses an integrated hydrogen gas turbine demonstrator. We also discussed Smurfit Kappa’s products as a potential alternative to plastic packaging, notably for fruits and vegetables. According to the company, the natural resources needed are replaced, virgin resources are used in the best possible way, and whatever possible is re-used. The company also uses industrial collaboration by partnering with other sectors. For example, during the virgin paper-production process they extract turpentine and tall oil, which are raw materials for the chemical, medical and pharmaceutical industries. The company is committed to sourcing and managing natural resources in the most efficient and responsible way possible, through sustainable forest management at its own plantations and forests and transparent processes across the supply chain

Company SDG Impact vs. MSCI World**

Source: LGT Capital Partners

* References to a specific company should not be construed as a recommendation
** Refer to the appendix for index information.

Ball Corp* – Striving to create the perfect circle

Ball Corporation manufactures metal packaging, primarily for beverages (85% of revenue), and supplies the aerospace industry. Ball follows ambitious long-term targets aiming to create the perfect circle for its packaging products in which materials can be used in perpetuity. In general, packaging manufacturers mostly produce products to customer specifications and primarily operate a tolling model (passing through most costs to customers and just getting paid to convert raw materials into containers). However, increasing regulation will require continued attention and vigilance. Ball manufactures many products which are disposed of after use if there is no proper recylcing cycle in place (aluminum cans). However, almost 70% of aluminum beverage cans globally are recycled, exceeding other packaging substrates like plastic, steel, and glass. In our engagement discussion, Ball pointed out that recycled aluminum is the lowest carbon aluminum (aluminum can be remelted at a relatively low temperature) with 0.5kg CO_2 per kg of aluminum, which is eight times lower than aluminum coming from smelting using renewable electricity. As a result, increasing aluminum can increase recycling rates, and recycled content is the biggest lever and a crucial step in accelerating progress against net zero targets for aluminum beverage packaging. The company's 2030 goals have a focus on the circular economy topic, including the alignment of the industry to achieve a 90% global recycling rate for aluminum beverage cans, bottles and cups (beverage recycling rate in the US – the largest can market globally–at 46%, India 91%, France 66%, Germany 99%). Waste management (aluminum collection, sorting) and recycling infrastructure is an important requirement to reach this goal. Ball rolls out communication and campaigns to educate clients and consumers about aluminum's infinite recyclability. In our engagement discussion with the company we discussed the share of recycled products in Ball's production process, supply chains, recycling infrastructures globally, and Ball's projects and industry collaboration related to circular economy. We made clear that we would encourage the issuance of green bonds, as Ball's strategy with a strong focus on circular economy (so-called real circularity) would qualify for a ESG-labelled issuance. The company explained that a rate or economic benefit such as a bond had not been visible in the past; however, Ball is currently evaluating the steps of a labelled bond issue. In our view, this is unlikely to happen in the near future as Ball has already issued USD 2bn in new plain vanilla bonds over the last two years. Industrial cooperation is one of the key elements in the circular economy and the company is working together with its supply chain partners to achieve an 85% average recycled content by 2030 in the aluminum used to produce beverage cans bottles and cups (today around 50–73%). The completion of assessments and due diligence of supply chains is an important factor to steer circularity; Ball annually assesses ESG practices of all critical suppliers and ensures corrective actions where suppliers fall short of company requirements. One region which is lagging dramatically in terms of waste recycling is the US (25% recycling rate).

Further 2030 targets relating to the circular economy include a 50% water efficiency improvement in can manufacturing, with a minimum 30% improvement across existing facilities (2020-2030), and that 100% of aluminum purchased comes from certified sustainable sources. Ball aims to use 100% renewable electricity by 2030 (75% by 2025). Absolute emissions of Ball's own operations will be reduced by 55% and within the value chain/Scope 3 by 16% (against 2017 baseline; 1.5 degree pathway). Ball has reported Scope 1 and 2 greenhouse gas ("GHG") emissions since 2002 and added Scope 3 emissions to the reporting portfolio in 2014. Innovations in the product offers also include aerosol container technology with a 75% recycled content, and weight-optimized designs in order to reduce the greenhouse gas footprint and improve energy efficiency. Ball's ambition is also that net zero carbon emissions will be achieved prior to 2050. Growth of the business is meant to be decoupled from resource use in the company's operations, with a focus on aluminum, energy, and water use.

Company SDG Impact vs. MSCI World**

Source: LGT Capital Partners

* References to a specific company should not be construed as a recommendation
** Refer to the appendix for index information.

PepsiCo* – The role of agriculture, water and packaging

PepsiCo ("Pepsi") is a leading global food and beverage company with a complementary portfolio of brands, including FritoLay, Gatorade, Pepsi-Cola, Quaker and Tropicana. The company was one of the first issuers in the consumer segment to issue a green bond back in October 2019. Earlier this year, Pepsi presented its new sustainability vision through its PepsiCo Positive ("pep+") program, which is designed to be a fundamental transformation of what Pepsi does and how it does it "to operate within planetary boundaries and inspire positive change for the planet and people".

Building a more circular value chain is one of the pillars of the new vision and targets specific improvements, including:

- achieving net-zero emissions across the company's value chain by 2040, and reducing GHG emissions by 75% (Scope 1 and 2) by 2030 against a 2015 baseline (40% reduction in Scope 3);
- becoming net water positive by 2030. This involves avoiding using more than 11bn liters of water a year and replenishing back into the local watershed more than 100% of the water used in high-water-risk areas;
- introducing more sustainable packaging and cutting virgin plastic per serving by 50% across the company's food and beverage portfolio by 2030, by using 50% recycled content in plastic packaging and scaling business models that avoid or minimize single-use plastic.

In our discussion with the company, it was clear that sustainable packaging, regenerative agriculture and water savings are some of the higher priorities set within the journey to a more circular economy.

A framework is in place for regenerative agriculture. This includes maintaining soil health, biodiversity protection and water conservation. Examples of actions undertaken include planting cover crops, drip irrigation and modern technology (drone technology). PepsiCo has a Sustainable Farming Program protocol and of course, the Supplier Code of Conduct helps ensure focus on sustainable farming and related monitoring. There are annual audits and checks of farmers and at least every three years every farmer will be checked to see if they comply with the Good Agricultural Practices ("GAP").

To achieve best in class-water-use efficiency, the company has set out detailed targets such as its commitment to draw 1.2 liters of water for every liter of beverage it manufactures, and 0.4 liters of water for every kilogram of food it manufactures This will be further strengthened by adopting the Alliance for Water Stewardship Standard at all of its high water-risk facilities by 2025. Specific actions undertaken include promoting drop irrigation over flood irrigation, and investing in more targeted tech efforts such as gene editing (different from GMO), which could help reduce the water need of certain crops. On top of this, the PepsiCo foundation has been funding local projects for the past ten years, aimed at providing high quality drinking water for local communities

Creating a more sustainable packaging footprint will require significant investments in infrastructure, technology and industry-wide collaboration. Pepsi is committed to designing 100% of its packaging to be recyclable, compostable, biodegradable or reusable by 2025 (estimated to be at 87% at end of 2020). Pepsi has for instance invested alongside Pulpex to design the first 100% recyclable paper bottle. There is also significant collaboration on an industry level through off-take agreements, collaboration on standards and, for example, the CEFLEX consortium (organisation for circular and flexible packaging). PepsiCo is also a member of several consortia and partnerships to develop innovative packaging solutions.

Recycling is also a key challenge. Currently, a lot of PepsiCo's waste is downcycled (e.g. into plant pots, not the same product as before) but the goal is to recycle into food containers (the outer layer of a chips bag could be feasible). Direct reuse of the packaging is going to take longer as there are significant infrastructure barriers to help lift collection and recycling rates. Pepsi is committed to accelerating investments in recycling infrastructure and exploring partnerships to empower waste collectors in those markets.

Company SDG Impact vs. MSCI World**

Source: LGT Capital Partners

* References to a specific company should not be construed as a recommendation
** Refer to the appendix for index information.

Groupe Casino* – circularity in waste management

Groupe Casino ("Casino") ranks as a major food retailer in France and Latin America. Multi-format, multi-brand and multi-channel, it employs over 200,000 people globally. Through its fast-growing GreenYellow subsidiary, Groupe Casino is also a leader in the French photovoltaic energy market. In November 2020, Casino was ranked 40th in the world's top 100 most responsible businesses and number 1 food retailer by the Wall Street Journal.

Sustainability is embedded at the heart of Groupe Casino's strategy, and the company has identified three main pillars around its circular economy plans, in addition to its strategy to maintain bio diversity and combat climate change. These three pillars are: i. reducing the impact of packaging, ii. reducing, sorting and reusing product waste, and iii. combating food waste.

Reducing the impact of packaging is the company's first priority in this circular economy journey. Casino has made significant progress in five of its commitments: reduce unnecessary packaging and disposable plastic products, reduce the use of materials through eco-designed products, use more recyclable packaging, incorporate recyclable materials, and encourage new consumption habits and improve selective sorting procedures. For instance, Casino signed France's National Pact on plastic Packaging in February 2019, which includes prioritising packaging containing PVC and expanding polystyrene, ensuring that packaging contains on average 30% of recycled plastic by 2025 and increasing bulk sales. Eco-designing packaging is especially visible in Casino's non-food E-commerce operations. Indeed, C-Discount minimizes packaging using an automatic machine that reduces the empty space in shipped packages, while over 90% of the cardboard boxes used for shipment packaging are made of recycled raw materials. In Brazil, GPA began a review of packaging design in 2019, developing a strategy to reduce the use of materials that are difficult or impossible to recycle, such as polystyrene packaging for fruit and vegetables which was replaced by containers made of biodegradable material.

For Casino, waste can be broken down into two categories: operational waste and customers' used products. Operational waste is dealt with by installing waste sorting systems across its operations and supporting the development of local recycling businesses. Training and educating staff also plays an important part. Innovative solutions are also deployed, and as an example, in 2020, about 3,900MWh of electricity was generated using the methane produced from 11,140 tons of organic waste from Casino hypermarkets and supermarkets. Customers' used products implies installing recycling bins in stores, providing collection points for used products, and encouraging waste recovery through certain commercial actions. In 2020, Casino sorted over 227,000 tons of waste, 8% more per square meter than in 2019. The group publishes performance indicators on a yearly basis.

Casino's strategy for combating food waste is centred on providing innovative solutions for customers and employees, deploying systems to reduce spoilage and unsold food, and donating foods to charities and local communities. For instance, in Brazil, more than 500 stores have joined the Partnership Against Food Waste programme that donates damaged fruit and vegetables to NGOs or food banks. Combating food waste also requires cooperation across the supply chain, working with suppliers to redefine processes, extend product sell by dates, and remove best-by dates on certain product categories. It also requires significant actions to educate customers, and help change behaviors downstream.

Company SDG Impact vs. MSCI World**

Source: LGT Capital Partners

* References to a specific company should not be construed as a recommendation
** Refer to the appendix for index information.

unsplash.com, Josh Power

Appendix

MSCI Index

The MSCI World Index offers a broad global equity benchmark without emerging markets exposure. It represents large and mid-cap equity performance across 23 developed markets countries. Benchmarks and indices are shown for illustrative purposes only, may be unavailable for direct investment, may assume reinvestment of income, and have limitations when used for comparisons because they have volatility, credit, and other material characteristics, such as number and types of securities, that are different from the product.

SDG impact of a circular economy implementation

Source: Velenturf, Purnell (2021), University of Leeds
Circular economy can enable a significant number of targets under the UN Sustainable Development Goals. Legend: Fraction of targets under each goal that would be strongly (red) and partially (orange) enabled by implementation of circular economy measures.

Please find below a list of the corporates the Fixed Income Team engaged with in 2021.

Company*	E	S	G	Topic overview	Sector	Country[6]
ACEA SpA	Y	N	N	Expansion of green financing	Utilities	Italy
AIB Group plc	Y	Y	Y	Green bond framework and implementation progress, impact reporting, SLB/KPI-linked considerations	Financials	Ireland
Alstom SA	Y	N	N	Circular economy, green financing	Industrials	France
Assicurazioni Generali SpA	Y	Y	Y	Deployment of green bond UOPs, further ESG targets	Financials	Italy
Australia and New Zealand Banking GrpLtd	Y	Y	Y	ESG instrument issuance, footprint	Financials	Australia
Axa SA	Y	Y	Y	Sustainable bond framework, issuance plans	Financials	France
Ball Corporation	Y	N	N	Circular economy measures in the aluminium can industry	Materials	United States
Banco BPM SpA	N	Y	N	ESG framework and instrument issuance plans – general discussion	Financials	Italy
Banco Comercial Portugues SA	Y	Y	Y	Prospective ESG/ green and social bond issuance	Financials	Portugal
Banco Santander SA	Y	Y	Y	ESG framework and milestones, KPI-linked bonds, ESG objectives	Financials	Spain
Bank of America Corp	Y	Y	Y	KPI-bonds and methodology, feedback from DCM	Financials	United States
Berlin Hyp AG	y	y	y	ESG update and issuance goals	Financials	Germany
BMW AG	Y	N	N	Circular economy, fully recycling produced cars and green financing	Consumer discretionary	Germany
CaixaBank SA	Y	Y	Y	ESG framework – green, social, COVID-19 bonds update	Financials	Spain
Cajamar	Y	Y	Y	ESG framework and issuance plans of the institution	Financials	Spain
Carrefour SA	N	Y	Y	Diversity, human rights, employees rights in Brazil following a fatal shooting at one of the company's stores in Rio de Janeiro	Consumer staples	Brazil
Casino Guichard Perrachon SA	Y	Y	Y	Constant ongoing dialogue on Casino's ongoing ESG initiatives and developments in the sustainability bond market	Consumer staples	France
Casino Guichard Perrachon SA	Y	N	N	Casino is facing a lawsuit in France for sourcing beef in Brazil through JBS, which is accused of furthering deforestation	Consumer staples	France
Casino Guichard Perrachon SA	Y	N	N	Circular economy	Consumer staples	France
Citigroup Inc	Y	Y	Y	Climate risk stress testing, disclosure standards for the banking industry in Europe	Financials	United States
Citigroup Inc	N	Y	N	New Citi Social bond tied to EM microfinance discussed	Financials	United States
CNP Assurances SA	Y	Y	Y	ESG update and issuance goals	Financials	France
Cofinimmo SA	Y	Y	Y	General ESG discussion, introduction to LGT ESG process	Real estate	Belgium
Covestro AG	Y	N	N	Circular economy (Co_2 as raw material, chemical recycling) and green financing	Materials	Germany
Covivio SA	Y	Y	N	Update on sustainable financing	Real estate	France
Daimler AG	Y	N	N	Circular economy and batteries	Consumer discretionary	Germany
Enel S.p.A.	Y	N	N	Circular economy and green financing	Utilities	Italy
Equinor ASA	Y	N	N	(Un)conventional oil and gas and Science Based Target initiative	Energy	Norway
Equinor ASA	Y	N	N	Green financing and circular economy	Energy	Norway
Evonik Industries AG	Y	N	N	Circular economy (focus on plastics) and green financing	Materials	Germany
Gecina SA	Y	Y	Y	New financing structure with requalification of existing bonds into green bonds	Real estate	France
HERA SpA	Y	N	N	Circular economy: Hera's approach	Utilities	Italy
Iberdrola SA	Y	N	N	Circular economy: feedback from Iberdrola	Utilities	Spain

Source: LGT Capital Partners

[6] Where the engagement topic pertains to specific issue in a specific country, this country is used. Otherwise, or where multiple topics are addressed, the location of the headquarters is used.
* References to a specific company should not be construed as a recommendation

Company*	E	S	G	Topic overview	Sector	Country[7]
Kellogg Company	Y	Y	Y	Kellogg was flagged as one of the companies using suppliers of palm oil with child labor issues by an AP article	Consumer staples	United States
Knorr - Bremse AG	Y	N	N	Circular economy and green financing	Industrials	Germany
Lanxess AG	Y	N	N	Circular economy and green financing	Materials	Germany
Linde PLC	Y	N	N	Circular economy green financing	Materials	United States
Mediobanca Banca Di Credito Fnnzr SpA	Y	Y	Y	ESG disclosure and monitoring, KPI bonds, ESG milestones for 2021	Financials	Italy
Naturgy Energy Group SA	Y	N	N	Circular economy and natural gas as transition commodity	Utilities	Spain
Natwest Group PLC	Y	Y	Y	Sustainability framework update, disclosure and further issuance plans	Financials	United Kingdom
Neste Oyj	Y	N	N	Green bond projects	Energy	Finland
Nordea Bank Abp	Y	Y	Y	Progress on ESG framework implementation and plans	Financials	Finland
Orpea SA	N	N	Y	Article in the French press mentioning a tax probe investigation involving Orpea related to an acquisition made in 2008	Health care	France
PepsiCo	Y	N	Y	Circular economy: what is PepsiCo currently doing and what are the next steps?	Consumer staples	United States
Red Electrica Corporacion SA	Y	N	N	Circular Economy measures and green financing	Utilities	Spain
Repsol SA	Y	N	N	Product innovations in sustainable biofuels as transition away from crude oil based products	Energy	Spain
Sanofi SA	N	Y	N	Rep Risk flags on two different lawsuits brought against Sanofi in relation with the safety of certain of their patented drug W	Health care	France
Siemens AG	Y	N	N	Role in circular economy and green financing	Industrials	Germany
Siemens AG	Y	Y	N	ESG-labelled bonds and circular economy efforts	Industrials	Germany
Smurfit Kappa Group Plc	Y	N	N	Circular economy and business model	Materials	Ireland
Societe Generale SA	Y	Y	Y	Green bond and general sustainability framework discussion	Financials	France
SSE PLC	Y	Y	Y	General meeting to discuss their recent development and progress	Utilities	United Kingdom
Tesco PLC	N	Y	Y	Labour practices, supply chain – forced labour in China	Consumer staples	United Kingdom
TotalEnergies SE	N	N	N	Total pipeline in Uganda and Tanzania	Energy	Uganda
TotalEnergies SE	Y	N	N	(Un)conventional oil and gas and Science Based Targets initiative	Energy	France
TotalEnergies SE	N	N	N	Circular economy	Energy	France
Veolia Environnement SA	Y	N	N	Circular economy role	Utilities	France
Vinci SA	Y	N	N	Circular economy and green financing	Industrials	France

Source: LGT Capital Partners

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