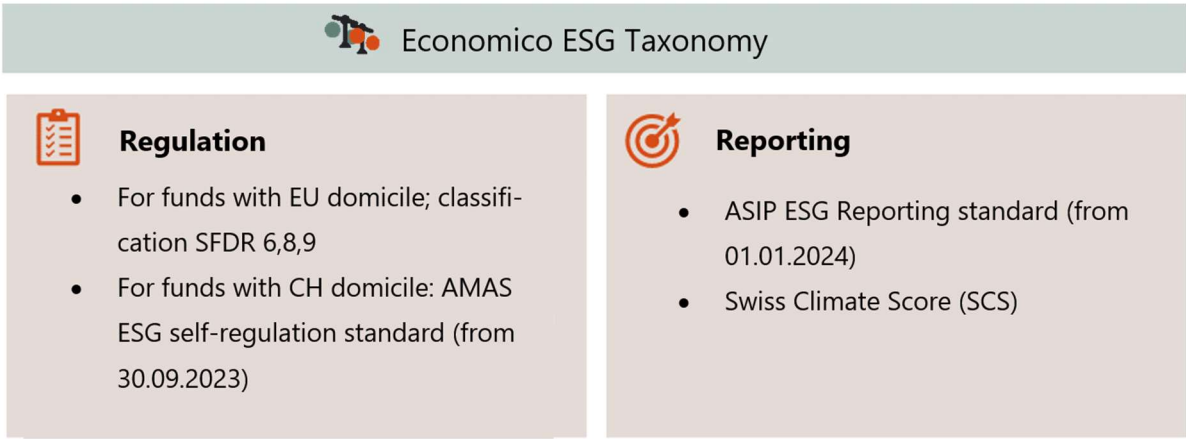


# Economico White Paper Taxonomy ESG

With the adoption of the Climate and Innovation Act (KIG) by the Swiss electorate on June 18, 2023, the federal government will be mandated under Art. 9 para. 1 KIG to ensure "... that the Swiss financial center makes an effective contribution to low-emission development that is resilient to climate change." This legal starting position will undoubtedly lead to the consideration of environmental compatibility in asset investment taking on even greater importance in the future.

Now, of course, the regulation of asset investment in terms of environmental sustainability, social sustainability, and governance (ESG) is not starting from scratch. Already today, the regulatory classification of investments with regard to ESG criteria is available in various laws and regulations or self-regulatory standards in both the EU and Switzerland or is about to be introduced.

Economico's claim is now to **translate the ESG regulation relevant for Swiss investors into a consistent comparison and evaluation logic** of different asset management offerings. To this end, all funds considered in an asset management solution are evaluated individually with regard to ESG criteria and then weighted. For the ESG criteria, a distinction is made between the **regulatory classification** of funds with regard to the consideration of ESG criteria in the investment process and the **reporting of ESG criteria** according to the relevant standards. For the regulatory classification of funds domiciled in Switzerland, the self-regulation "Sustainable Finance", which comes into force on September 30, 2023, is applied; for collective investment schemes domiciled abroad, the European SFDR regulation described below is applied. With regard to ESG reporting, the availability of the "Swiss Climate Scores (SCS)" launched by the Federal Council at its meeting on June 29, 2022, as well as compliance with the ESG Reporting Standards published by the Swiss Pension Fund Association ASIP and coming into force on January 1, 2024, will be reviewed and assessed. The structure of the Economico ESG taxonomy concept is illustrated in the overview below.



The scoring scheme used in the Economico ESG Taxonomy is based on an equal weighting of the two areas of regulation and reporting.

# 1 ESG Regulation

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AMAS Sustainable Finance is a self-regulatory initiative of the Swiss financial industry. It was launched in 2021 and aims to improve the sustainability performance of the financial industry. AMAS Sustainable Finance consists of a Code of Conduct to be signed by the members of the initiative. The Code of Conduct sets out a number of requirements for the sustainability performance of the financial industry, such as the obligation to disclose sustainability information, the integration of sustainability risks into investment processes, and the support of sustainable companies and projects.

To be considered compliant with AMAS self-regulation, a fund must meet a number of criteria:

- **Disclosure of sustainability information:** The fund must disclose its sustainability performance. This includes the disclosure of information about the sustainability risks it faces, the sustainability objectives it pursues, and the sustainability performance it achieves.
- **Integration of sustainability risks into the investment process:** The fund must integrate sustainability risks into its investment process. This means that it must identify, measure, and manage sustainability risks.
- **Support sustainable companies and projects:** The fund must support sustainable companies and projects. This can be done by investing in sustainable companies, financing sustainable projects, or providing consulting services for sustainable companies and projects.
- In addition to these criteria, the fund must also meet a number of **technical requirements**, such as using a specific sustainability rating system. The technical requirements are designed to ensure that funds joining self-regulation improve the sustainability performance of their investments in a systematic and consistent way.

Finally, it should be noted that the final wording of the self-regulation, which comes into force on September 30, 2023, is not yet available at the time of publication of the Economico ESG Taxonomy v1.0 document. We are closely monitoring whether the final version will be amended and will take this into account in the Economico ESG Taxonomy if necessary.




The Sustainable Finance Disclosure Regulation (SFDR) is a European Union regulation that makes the disclosure of sustainability information by financial institutions mandatory. The SFDR came into force on March 10, 2021 and applies to all financial institutions that market financial products in the European Union.

Compared to the Swiss AMAS self-regulation, the SFDR has similar objectives and requirements, but unlike the AMAS self-regulation, the SFDR is a more binding regulation. The SFDR has a broader scope and contains stricter requirements, especially with regard to the consideration of specific sustainability

factors in investment decisions. Swiss self-regulation is voluntary, and the regulatory framework follows a principles-based style in contrast to the SFDR regulation.

For the classification of EU-domiciled funds, the SFDR Regulation distinguishes three types of characteristics. The requirement criteria for the allocation of funds are defined in Art. 6 SFDR (no special ESG expression), Art. 8 SFDR (ESG expression "Light green") and Art. 9 SFDR (special ESG expression "Dark green"). The allocation of investment products to the three characteristics is monitored by the European Supervisory Authorities (E-SAs). The three types can be summarized as follows:







- **Art. 9 SFDR ("Dark green" products):** Article 9 applies to financial products that have sustainability as their primary objective. The products must disclose their sustainability objectives, features, impacts and policies in the Key Investor Document (KIID).
- **Art. 8 SFDR ("Light green" products):** Article 8 applies to financial products that pursue sustainability goals but do not have them as their primary objective. The products must disclose their sustainability objectives, characteristics and impacts in the Key Investor Document (KIID).
- **Art. 6 SFDR:** No specific orientation of the asset investment towards sustainability criteria. If an investment product does not meet either the sustainability criteria required under Art. 8 SFDR or Art. 9 SFDR, it is allocated Art. 6 SFDR.

 In the current version of the Economico ESG Taxonomy v1.0, a self-declaration by the providers is required for each fund. For funds domiciled in Switzerland, it is asked whether compliance with the self-regulation AMAS Sustainable Finance, which comes into force on 30.09.2023, is ensured. If compliant, the fund receives 1 ESG taxonomy point, if non-compliant 0 points. For funds with foreign domicile, an allocation of SFDR 9, 8, 6 is required (which can be independently validated in the product-specific KID). If compliant with SFDR 9, the fund receives 2 ESG taxonomy points, if compliant with SFDR 8, the fund receives 1 ESG taxonomy point, if non-compliant with SFDR 8 or 9, the fund receives 0 points.

## 2 ESG Reporting

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In the context of ESG reporting, the two reporting standards Swiss Climate Scores (SCS) of the Swiss Confederation and the ESG reporting standard of the pension fund umbrella organization ASIP, which will come into force from 2024 in the sense of self-regulation, are used. The ASIP reporting standard distinguishes between a basic and an extended version of ESG reporting. The present version of the Economico ESG taxonomy is limited to checking conformity with the basic variant. In terms of content, the SCS of the Swiss Confederation and the basic variant of the ASIP ESG reporting standard show significant overlaps, whereby the SCS is only applicable to the asset classes equities and corporate bonds, but not government bonds and real estate investments. It should be noted that the key figures to be reported in the two reporting standards are so far limited to environmental sustainability - i.e. the E-dimension of ESG orientation in asset management. The similarities and differences between the two reporting standards are illustrated in the following table:


Criteria	Swiss Climate Scores			ASIP ESG Reporting		
	Description	Shares & Corporate Bonds	Government bonds	Real Estate Switzerland	Shares & Corporate Bonds	Government bonds
 Greenhouse gas emissions (CO2 intensity; CO2 footprint)	✓	✗	✗	✓	✓	✓
 Exposure to fossil fuels (share of investment in emitters in the coal sector or other fossil fuels).	✓	✗	✗	✓	✗	✓
 Investment share in emitters with credible net zero CO2 emissions target	✓	✗	✗	✓	✗	✗
 Documentation and measurement of whether and to what extent the investment strategy is geared towards achieving a net zero target in terms of CO2 emissions.	✓	✗	✗	✓	✓	✓
 Stewardship: Voting rights and commitment regarding E(SG) criteria	✓	✗	✗	✓	Hardly possible*	✗
 Global warming potential in degrees Celsius (indicating use of climate scenario).	✓	✗	✗	✓	✗	✗

Source: [www.sif.admin.ch](http://www.sif.admin.ch), Website Schweizerischer Pensionskassenverband ASIP

Legend:

\* In principle, it is conceivable that globally active, large asset managers enter into direct dialog with government authorities in order to achieve an influence with regard to ESG compliance. However, this option is probably only reserved for the largest, globally active asset managers.

The ticks marked with orange refer to the extended cost indicators of the ASIP ESG Reporting, which are not tested within the scope of the present version of the Economico ESG Taxonomy.

 In the current version of the Economico ESG Taxonomy v1.0, a self-declaration of the providers is required for each fund, according to which reporting standards the individual fund provides a report. For each reporting standard delivered, the fund receives 1 ESG taxonomy point. If a fund reports both the Swiss Climate Scores (SCS) and, from January 1, 2024, the basic key figures according to ASIP ESG Reporting, the fund will receive a total of 2 ESG taxonomy points. The fund specific ESG taxonomy points are then in turn scaled to the entire asset management mandate according to category weighting.

The ESG reporting standards considered in the Economico ESG taxonomy are still very new or have not yet been implemented. However, the ESG reporting provided for in these standards is expected to become established as a standard in the fund and investment market in the near future. With the dissemination of these standards, the Economico ESG taxonomy will also evolve so that not only the availability of the corresponding, but also the resulting ESG key figures are measured and evaluated. In this sense: There is more to come.