

● ethos



POSITIVE IMPACT METHODOLOGY



The **Ethos Foundation** brings together over 220 Swiss tax-exempt pension funds and institutions. Created in 1997, its aim is to promote socially responsible investment and to foster a stable and prosperous socio-economic environment.

Signatory of:



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Table of contents

1. INTRODUCTION AND GENERAL PRINCIPLES	5
1.1 BACKGROUND AND FOUNDATIONS	5
1.2 FROM ACTIVITIES TO COMPANIES CONTRIBUTING TO A POSITIVE IMPACT	7
1.3 THE METHODOLOGY	7
2. HEALTH AND WELL-BEING	9
2.1 TREATMENT OF MAJOR, NEGLECTED OR ORPHAN DISEASES	9
2.2 HOSPITALS	9
2.3 GENERIC MEDICINES	9
2.4 DISEASE PREVENTION	10
3. EDUCATION, TRAINING AND CULTURE	11
3.1 EDUCATION SERVICES	11
3.2 EDUCATIONAL PRODUCTS	11
3.3 INFORMATION AND CULTURE	11
4. SUSTAINABLE ENERGY	12
4.1 GENERATION	12
4.2 INFRASTRUCTURES	12
4.2.1 Smart Grids	12
4.2.2 Batteries and storage systems	12
4.2.3 Green hydrogen	13
4.3 ENERGY USE REDUCTION	13
5. CIRCULAR ECONOMY	14
5.1 REDUCE	14
5.2 RE-USE	14
5.3 RECYCLE	15
6. LOW CARBON MOBILITY	16
6.1 SOFT MOBILITY	16
6.2 LOW CARBON VEHICLE MANUFACTURING	16
6.3 LOW CARBON MOBILITY INFRASTRUCTURES	17
6.4 LOW CARBON MOBILITY SERVICES	17
7. POLLUTION CONTROL	18
7.1 POLLUTION PREVENTION	18
7.2 POLLUTION REDUCTION AND CONTROL (WITH RESTRICTIONS)	18
7.3 POLLUTION TREATMENT	18
8. RESILIENT AGRICULTURE, AQUACULTURE AND SILVICULTURE	19
8.1 SUSTAINABLE AGRICULTURE	19
8.2 SUSTAINABLE AQUACULTURE	20
8.3 SUSTAINABLE SILVICULTURE	20
9. SUSTAINABLE REAL ESTATE	21
9.1 GREEN BUILDING MATERIALS	21
9.2 GREEN BUILDINGS	21

9.3	CLIMATE-RESILIENT BUILDINGS	22
9.4	ENERGY-SAVING APPLIANCES, LIGHTING AND EQUIPMENT	22
9.5	ADEQUATE AND AFFORDABLE HOUSING	22
10.	SUSTAINABLE WATER MANAGEMENT	23
10.1	WATER COLLECTION, STORAGE AND DISTRIBUTION	23
10.2	WATER MANAGEMENT INFORMATION SYSTEMS	24
10.3	WATER EFFICIENCY	24
10.4	WATER AND WASTEWATER TREATMENT	24
11.	SUSTAINABLE FINANCE	25
11.1	SUSTAINABLE INVESTMENTS	25
11.2	SUSTAINABLE LENDING	25
11.3	SUSTAINABLE INSURANCE	26
12.	CONCLUSION	27

1. Introduction and general principles

Since its creation in 1997, the Ethos Foundation has favoured in its investment products companies that integrate social and environmental dimensions into their business model, respect good corporate governance practices and address the concerns of their key stakeholders. In 2017, Ethos published its Principles for Socially Responsible Investment (SRI), which transparently define its approach to SRI and provide a framework for its investment solutions.

In a continuous effort to improve transparency, Ethos took a new step in September 2022 by adopting a positive impact methodology. The objective of this methodology is to make it easier for investors to identify companies active in sectors or activities that have a positive impact on the environment and society in general. It is accomplished at a time when it is more necessary than ever to redirect capital flows towards sustainable activities to limit global warming, in line with the objectives of the Paris Agreement.

This document presents in a transparent way the elements that led to the identification of activities deemed positive from a social or environmental perspective and details the different themes selected by Ethos as well as the economic activities linked to them.

1.1 BACKGROUND AND FOUNDATIONS

What can be considered positive in human activities is by nature subjective. Therefore, Ethos does not claim to hold the absolute truth on which activities are positive and which are not. However, this methodology is based on certain established and recognised principles. In particular, Ethos considers that positive economic development must respect planetary boundaries while improving human health and quality of life.

Our society and economy are based on the use of energy and materials. However, this consumption has three physical limits: the renewal rate of renewable resources, the finite quantity of non-renewable resources, and the rate of treatment of the pollution generated. These limits represent a constraint for our economy and its quantitative development¹. Consequently, the economy's quantitative development, conventionally measured with GDP growth coupled with energy use, cannot be infinite².

Currently, our society is overstepping these physical limits, leaving a burden on future generations as well as on other living beings. As the goal is to move towards a sustainable society, it is necessary to change cultures and ways of operating and accelerate the transition to a society that uses the available resources more sparingly and better. This transition can take place in two forms:

- **Planned and rapid:** an orderly transition takes place, for example, through agreements between states or companies. This is the objective of the Paris Agreement, the European Union (EU) Green Deal or the carbon trading mechanisms (ETS). Transition planning also ensures that the transition is fair, equitable and maximises welfare.
- **Forced and delayed:** A disorderly transition occurs when certain companies and industries are no longer able to operate in the same way as before and are thus potentially forced to disappear. The consequences are difficult to assess precisely, but job losses and other negative impacts on social well-

¹ <https://www.britannica.com/science/energy>
<https://jancovici.com/transition-energetique/l-energie-et-nous/lenergie-de-quoi-sagit-il-exactement/>

L'énergie du déni, V. Mignerot, 2021

² <https://doi.org/10.1088/1748-9326/ab842a>

<https://theshiftproject.org/lien-pib-energie/>

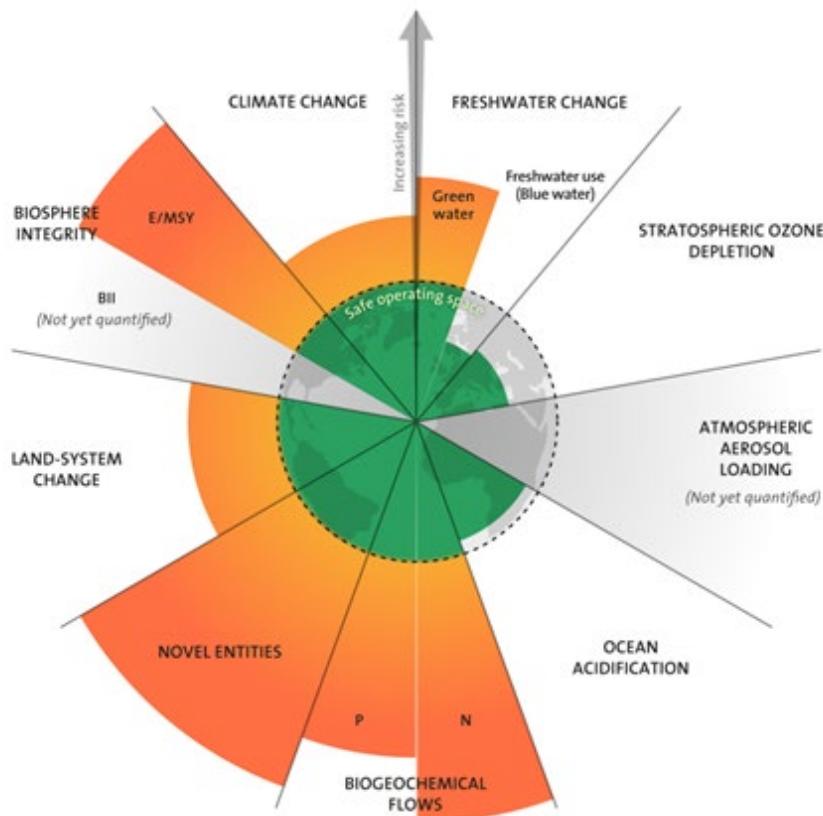
<https://alaingrandjean.fr/2017/04/17/liens-energie-pib/>

<https://lejournal.cnrs.fr/articles/la-croissance-une-affaire-denergie>

being can be expected. Furthermore, the transition risks with legal, financial and reputational consequences for companies³ seem to be higher in a disorderly transition situation⁴.

It is likely that the ongoing energy transition will take place partly in an orderly and planned manner and partly in a forced manner with negative consequences. There are still many uncertainties about the process and its effects, but the most recent research suggests that inaction will be more costly to businesses and society in the long run, from both a financial and social perspective.

By April 2022, six of the nine identified planetary boundaries had already been exceeded according to the Stockholm Resilience Centre (see graph below). Our current economic system and uncontrolled use of resources threaten the functioning and survival of interconnected systems such as the climate system, biodiversity or the water cycle⁵.



³ <https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf>

⁴ NGFS Climate Scenarios for central banks and supervisors: https://www.ngfs.net/sites/default/files/medias/documents/820184_ngfs_scenarios_final_version_v6.pdf

⁵ <https://www.stockholmresilience.org/research/research-news/2022-04-26-freshwater-boundary-exceeds-safe-limits.html>

1.2 FROM ACTIVITIES TO COMPANIES CONTRIBUTING TO A POSITIVE IMPACT

Certain activities play a key role in enabling the transition to a more sustainable economy with a greater chance of success. They are considered to have a positive impact according to Ethos' methodology and can take the form of products or services. The "Doughnut model" which incorporates the concept of planetary boundaries and social foundations – including but not limited to social equity, health and education – helps us to establish the framework within which these activities should take place. Two types of essential criteria must be respected (see graphic page 8):

- **Social foundations:** activities should be the basis for a fair and just society. Education and health are seen as prerequisites for a healthy and peaceful society.
- **Ecological ceilings:** activities must respect global limits, without overexploiting natural resources or negatively affecting interconnected ecological systems.

In addition, certain principles and concepts, are necessary for an activity to have a positive impact in the context of a successful ecological and social transition:

- **Sufficiency:** because of the rebound effect and the limits of decoupling environmental impact from economic activity⁷, Ethos considers that a credible ecological transition cannot take place without energy sufficiency and demand-side mitigation^{8,9}. The products or services considered as positive must therefore help reducing the consumption of energy and natural resources as much as possible. More importantly, they should not lead to an increase in consumption.
- **Life cycle analysis:** products and services should be analysed over their entire life cycle to ensure that potential undesirable impacts are not overlooked.
- **"Do no significant harm" principle:** an activity that contributes positively to one aspect of the transition should not significantly impair other environmental or social aspects. Since the term is subjective, the methodology relies as much as possible on the current scientific and societal consensus to assess whether an impact is significant or not.

The activities detailed below include sectors that are crucial for the ecological and social transition, such as energy, health and construction. The companies operating in these sectors are identified by Ethos in a quantitative and qualitative manner and the share of their revenue that comes from these activities is determined as precisely as possible to measure their positive contribution to a society in transition.

This information enables the Ethos Foundation to achieve its goals of promoting a stable and prosperous socio-economic environment and to take into account the principles of sustainable development in its investment and engagement activities.

1.3 THE METHODOLOGY

Ethos has grouped into ten themes the activities that are considered to have a positive environmental and/or social impact and that play a key role in the transition to a sustainable society. These activities were then precisely defined in order to identify the share of revenue that the company generates through these activities.

While the themes of health and education are key aspects of social foundations and that sustainable finance should allow for a better allocation of capital to positive impact activities, all the other themes identified are activities that diminish the negative consequences of the alternatives they aim to replace.

However, this positive impact only occurs if an activity that has a negative impact is replaced, for example if a low-carbon transport mode replaces a thermal vehicle emitting high greenhouse gas (GHG). In general, if a positive impact cannot be clearly identified, Ethos shall consider that there is none. This conservative approach aims to favour the most transparent companies that clearly demonstrate their positive impact.

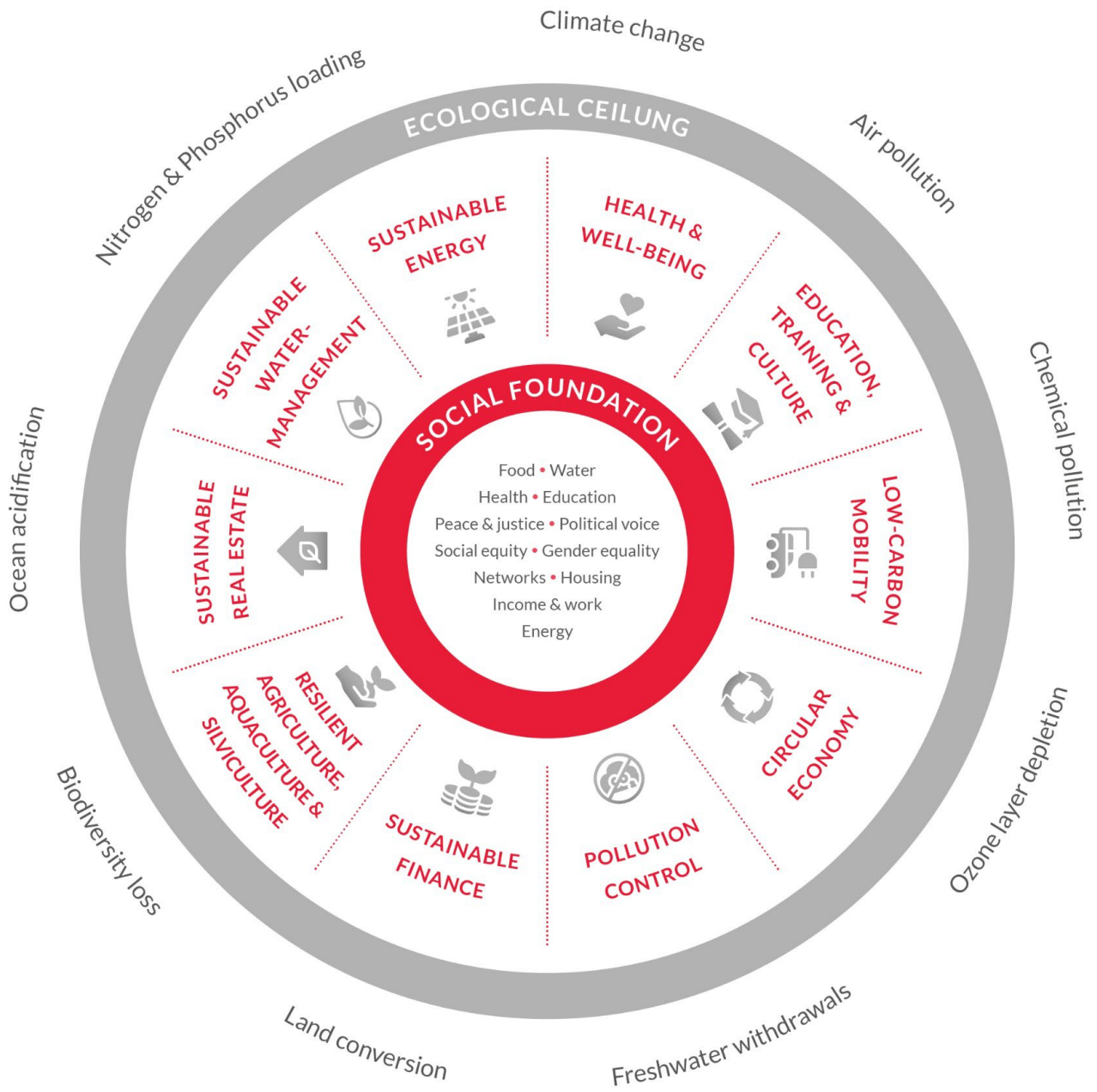
It should also be noted that this positive impact methodology is dynamic and will be updated, after a thorough internal analysis, should new solutions or technologies emerge.

⁶ <https://www.kateraworth.com/doughnut/>

⁷ <https://www.sciencedirect.com/science/article/pii/S1462901120304342>

⁸ <https://www.wwf.ch/fr/nos-objectifs/moins-cest-mieux-le-principe-de-sobriete>

⁹ <https://negawatt.org/The-negaWatt-2050-energy-scenario>



2. Health and well-being

Health is essential to the prosperity of the global population. That is why ensuring healthy lives and promoting well-being for all at all ages is one of the 17 Sustainable Development Goals (SDGs) established by the United Nations (UN) and included in the 2030 Agenda. However, although significant progress has been made in recent years, the World Health Organisation (WHO) highlighted in 2017 that more than half of the world's population still lacks access to essential health services. Furthermore, two billion people cannot access the basic medicines they need¹⁰.

For Ethos, the aim is to identify companies that make a significant contribution to improving health and, especially access to health services throughout the world without harming society or the environment.

2.1 TREATMENT OF MAJOR, NEGLECTED OR ORPHAN DISEASES

Non-communicable diseases, such as cardiovascular or chronic respiratory diseases, cancers and diabetes, are the leading causes of death worldwide. Contagious diseases, such as AIDS/HIV, tuberculosis, measles, rubella, malaria and viral hepatitis, cause 10 times fewer deaths but still account for four million deaths each year¹¹. In addition, neglected diseases, often affecting the poorest populations, as well as orphan diseases, affecting only a very small number of people worldwide, are severely under-researched and under-funded, as treatments may seem less profitable for pharmaceutical companies.

Therefore, companies that address the above-mentioned diseases that either contribute to curing a large population or underserved patients, as well as those that are active in their detection, analysis and treatment, are aligned with Ethos' positive impact methodology.

2.2 HOSPITALS

Hospitals, clinics and other health facilities are essential components of the health system. By concentrating human, technological and medical resources to provide care for their patients, they have a positive impact on health, the economy and community development. They also regularly provide training for health care workers and support for clinical research, thus contributing to the advancement of the health sector.

Companies running hospitals are therefore aligned with Ethos' positive impact methodology.

2.3 GENERIC MEDICINES

Generic medicines have the same composition and quality as branded medicines but are only sold once the patents on the latter have expired. They are therefore significantly cheaper than original medicines, as their manufacturers do not bear the costs of R&D and clinical studies on quality and safety.

Generic medicines thus contribute to improving accessibility and affordability of medicines, while reducing the overall cost of insurance.

Companies involved in the development and distribution of generic medicines, for which it is possible to demonstrate having a significant positive impact on global health in terms of availability, price and accessibility, are therefore aligned with Ethos' positive impact methodology.

¹⁰ <https://apps.who.int/iris/bitstream/handle/10665/255355/9789241512442-eng.pdf>

¹¹ <https://www.euro.who.int/en/health-topics/communicable-diseases>
<https://ourworldindata.org/causes-of-death>

2.4 DISEASE PREVENTION

Adopting a healthy lifestyle, which includes not smoking, moderate alcohol consumption, regular physical activity and a healthy and balanced diet, reduces the risk of cardiovascular disease, diabetes, heart disease and certain cancers by promoting a stable weight and improving mental well-being. A healthy diet helps to meet the body's daily nutritional needs and prevent some of the most common non-contagious diseases. Vaccination is another important tool for disease prevention.

Prevention of major diseases is therefore an effective way to reduce pressure on health systems, save medical costs and improve the population's quality of life. The following activities are aligned with Ethos' positive impact methodology:

- The processing, manufacturing and distribution of healthy and nutritious food products, provided that they also meet the criteria set out in 8.1;
- The development, production and distribution of goods and services that promote physical activity and sport;
- The development, production and distribution of vaccines.



3. Education, training and culture

Education is a fundamental right and is essential for building human capital. Although more young people than ever before have access to basic education, 260 million children and adolescents worldwide are still out of school and 773 million adults are illiterate¹². These figures are particularly high in developing countries and affect mainly girls and women. This is partly due to the lack of adequate learning materials and infrastructure, poor quality of education and inadequate teacher training.

Ethos believes that education is essential for the development of a sustainable economy. Since the access to this fundamental right is already highly unequal, Ethos will avoid creating new disparities by supporting accessibility and improvement of public rather than private education.

Ethos' positive impact methodology aims to identify companies that are making a significant contribution to solving the education crisis while striving to not harm society or the environment.

3.1 EDUCATION SERVICES

Providing quality education to children and young people will enable them to reach their full potential as young adults, acquire useful life skills, increase their employability and future earnings, improve their well-being and have a positive impact on their health. Adult education, which includes continuous education, is also essential for fighting poverty, reducing marginalisation and achieving social justice. It enables individuals to complete their education or to acquire new knowledge, skills and competences. Finally, in order to ensure the quality of education provided to students, teachers must receive adequate pedagogical training.

Companies whose revenues are derived from public early childhood, primary, secondary and tertiary education, public or private adult education and teacher training are therefore aligned with Ethos' positive impact methodology.

3.2 EDUCATIONAL PRODUCTS

Adequate teaching resources and materials are also essential for quality education. They are the main tools for developing students' skills and knowledge. In addition, digitalisation offers new solutions for education and can facilitate the inclusion of marginalised students. Massive Open Online Courses (MOOCs), for example, represent an affordable and flexible solution to improve access to higher education, as they can be taken from anywhere in the world with an internet connection. For this reason, Ethos considers the adaptation of education to the digital age as a major challenge.

Companies whose revenues are derived from the development of educational materials and resources such as books, software and online educational content are therefore aligned with Ethos' positive impact methodology.

3.3 INFORMATION AND CULTURE

Access to credible and verifiable information and the promotion of culture are also essential to develop knowledge and thoughts while improving the well-being and empowerment of individuals. This free access is currently not guaranteed everywhere in the world and can be threatened at any time. Therefore, Ethos considers that companies that make a significant contribution to access to information and culture have a positive impact on society and contribute to the creation of a stable and prosperous economic environment.

Companies whose revenues contribute significantly (and solely) to access to culture or to credible, verifiable, recognised and quality information are aligned with Ethos' positive impact methodology.

¹² <http://uis.unesco.org/en/topic/literacy>

4. Sustainable energy

Energy consumption is one of the main sources of GHG emissions worldwide and accounts for more than 70% of all anthropogenic emissions¹³. In order to mitigate climate change and meet the Paris Agreement target of limiting global warming to 1.5°C above pre-industrial levels, governments have announced plans to achieve net zero emissions by 2050. This transition will require increasing renewable energy sources while significantly reducing carbon-intensive sources in the global energy mix. Meeting the Paris Agreement targets would require an investment of around USD 27 trillion in renewable energy over the 2016-2050 timeframe, according to the International Renewable Energy Agency¹⁴, which would mean more than doubling current annual investments. Investing in the global energy transformation should therefore be a priority for investors.

Ethos' positive impact methodology aims to identify companies that make a significant contribution to a sustainable energy sector¹⁵ while striving not to harm society or the environment.

4.1 GENERATION

The use of sustainable energy is a long-term solution to the growing demand for energy and a sustainable alternative to fossil fuels. Not only does energy from renewable sources emit fewer GHG, but it also improves public health by emitting less air and water pollution than fossil fuels. To determine which renewable energy sources are aligned with Ethos' positive impact methodology, their GHG emissions over their entire life cycle were considered, as well as their consistency with the principles of the circular economy and their impact on biodiversity, land use and water. In line with the EU taxonomy, a maximum threshold of 100 g CO₂e/kWh has been set. This threshold will be reduced on a regular basis.

Therefore, the following energy sources are aligned with Ethos' positive impact methodology:

- Photovoltaic or concentrated (thermodynamic) solar energy;
- Onshore and offshore wind energy;
- Geothermal energy;

- Marine energy: wave and tidal energy;
- Hydroelectricity: reservoir hydroelectric power plants, small-scale hydroelectric power plants or run-of-river hydroelectric power plants, subject to conditions.

Although it meets the above-mentioned threshold, nuclear energy is not included in Ethos' positive impact methodology. It is not renewable and does not respect the principle of harmlessness in terms of both risks and waste treatment.

Companies active in the production of energy and components or infrastructures dedicated to the above-mentioned sustainable energy sources are also aligned with Ethos' positive impact methodology.

4.2 INFRASTRUCTURES

4.2.1 SMART GRIDS

Conventional energy networks are designed to receive energy from large, controllable generators on a permanent basis, which require little storage capacity. As some renewable energy sources are dependent on natural conditions, the supply of intermittent energy disrupts these networks. The use of smart grids thus allows for better integration of various renewable energy sources into the transmission and distribution network while maintaining stability and increasing system efficiency.

Companies active in the operation of smart grids or in the production of components, infrastructure and technologies dedicated to smart grid systems are aligned with Ethos' positive impact methodology.

4.2.2 BATTERIES AND STORAGE SYSTEMS

Energy storage helps to reduce the inadequacy between electricity supply and demand caused by renewable energies. By saving excess power for later use, storage technologies reduce energy losses, increase the efficiency of the electricity grid and enable the electrification of other industries (e.g. transport with electric vehicles). Although these technologies have GHG

¹³ <https://www.wri.org/blog/2020/02/greenhouse-gas-emissions-by-country-sector>

¹⁴ <https://www.irena.org/financeinvestment/Investment-Needs>

¹⁵ Sustainable and renewable are mentioned alternately in this chapter. In general, Ethos considers energy to be sustainable because, in addition to being renewable on a human scale, it takes into account social and environmental criteria.

emissions associated with their production and use, Ethos considers that, in the long run, the deployment of sustainable energy more than offsets this impact.

Companies active in the production of batteries or storage technologies enabling the deployment of sustainable energy are therefore aligned with Ethos' positive impact methodology.

4.2.3 GREEN HYDROGEN

Green hydrogen refers to the production of hydrogen by electrolysis of water using electricity from renewable sources. This allows for low-carbon energy storage and transport, while the hydrogen produced can then be used as a fuel. Other production methods include the use of fossil fuels, sometimes combined with carbon capture and storage, but none of these other methods are considered low carbon. They are therefore excluded from this methodology. To ensure that GHG emissions are reduced, hydrogen should be used as a substitute for fossil fuels, where electrification is not a feasible option. Examples of such applications are transportation and industrial use under certain conditions.

Companies active in the manufacture, storage or transport of green hydrogen for low carbon applications are aligned with Ethos' positive impact methodology.

4.3 ENERGY USE REDUCTION

The current usage of energy is not sustainable. Ethos considers that a reduction in energy consumption is essential to achieve climate protection goals and to design a sustainable energy future. This category includes companies that, through their products or services, enable energy efficiency gains for their customers, such as Energy Efficiency as a Service (EEaaS) or utilities with energy efficiency programmes for their customers.

Companies that offer solutions contributing to the reduction of energy consumption are eligible for Ethos' positive impact methodology.



5. Circular economy

The traditional economic model is based on a linear approach: "take-make-use-dispose". The materials, or inputs, are extracted and transformed into products that are discarded after use. This unsustainable model puts excessive pressure on ecosystems, leads to resource scarcity, increases GHG emissions and generates a disproportionate pollution load. The world consumes over 100 billion tonnes of materials per year according to the 2021 Circularity Gap Report, while 91% of waste is either incinerated, landfilled or released into the environment¹⁶.

Based on the Ellen MacArthur Foundation's definition of a circular economy - an economy based on the principles of eliminating waste and pollution, conserving products and materials, and regenerating natural systems¹⁷ -, Ethos considers the circular economy according to the following criteria:

- The use of recycled or sustainably produced bio-based materials as inputs for products;
- The ability to return products to reuse, repair, recover or recycle them so that they last several life cycles.

According to the above-mentioned report¹⁸, a minimum threshold of 17% circularity may be needed to keep global warming well below 2°C by 2032 - the central objective of the Paris Agreement - which is why this figure is used as a key parameter in this theme.

5.1 REDUCE

The use, and therefore the extraction, of raw materials for the production of finished products should be limited. In this way, the amount of waste that ends up in landfills, dumped in nature or incinerated will be reduced. Regarding bio-based materials, reducing their unsustainable use aims to prevent the depletion of natural resources, which is the source of problems such as increased soil erosion and loss of biodiversity, among others.

This theme includes manufacturing companies that reduce the use of virgin or unsustainable materials and replace them with bio-based or recycled or sustainable alternatives in their industrial processes. Examples of solutions aligned with Ethos' positive impact

methodology include companies in all sectors whose products use circular design principles and are manufactured with at least 17% recycled or recycled or bio-based materials in a sustainable manner (input streams).

5.2 RE-USE

The concept of reuse refers to keeping a manufactured product in service for as long as possible, whether for its original purpose or for a different function. In this sense, reuse encompasses other circular strategies such as recovery, remanufacturing, refurbishment, redistribution, decycling and upcycling. Reusable products save businesses and consumers the financial and environmental costs associated with the production and disposal of single-use products.

Retailers, who have the ability to control the composition and lifespan of the products they put on the market, are at the centre of the circular economy.

This theme includes companies whose business model contributes to keeping products in use for as long as possible or whose products and/or services consist of at least 17% reused components, both in terms of their inflow and outflow.

¹⁶ <https://www.circularity-gap.world/2021>

¹⁷ <https://archive.ellenmacarthurfoundation.org/fr/economie-circulaire/concept>

¹⁸ <https://www.circularity-gap.world/2021>

5.3 RECYCLE

This theme applies to companies in the waste management industry who operate recycling plants and infrastructure as well as to companies that develop technologies to produce with recycled materials. The term recycling refers to the recovery of biodegradable and non-biodegradable materials from waste for reuse in a new product. Recycling occurs at the end of the materials value chain, when reuse strategies are no longer possible. It minimises the amount of waste going into the environment, landfills or incinerators. It contributes to the conservation of natural resources and reduces pollution by reducing the need to extract new raw materials.

This topic includes, for example, waste management companies. As waste-to-energy could potentially threaten efforts to promote waste reduction, reuse and recycling, this application is currently excluded from the scope of the Ethos positive impact methodology.



6. Low carbon mobility

Transport is one of the fastest growing sources of GHG, preceded only by industrial processes, and accounted for 14.2% of global emissions in 2018¹⁹. Three quarters of these emissions are generated by road vehicles, with combustion engines being the main source of transport emissions. The rise in GHG emissions has been largely driven by an increase in air travel, a growing demand for larger and heavier private vehicles, as well as increased e-commerce. A shift to a low-carbon transport system is therefore imperative to limit global warming.

In addition, the transport sector is also responsible for other negative impacts such as air and water quality degradation, road accidents, noise pollution, high land use, acid rain or smog. Since most of the negative consequences of mobility are directly related to climate impact, Ethos has chosen to focus on this theme as an evaluation criterion. Vehicles that use more fossil fuels are also those that cause the most air quality degradation, noise pollution and other negative effects.

Within the framework of this methodology, Ethos evaluates low-carbon mobility on the basis of the following criteria:

- GHG emissions per passenger (or per tonne of freight) per kilometre over the whole life cycle of the product;
- The zero exhaust gas emission threshold is generally applied for passenger and freight transport;
- This also includes the notion of energy sufficiency (size, weight, power, materials, marketing, use) and energy efficiency.

6.1 SOFT MOBILITY

Soft mobility refers to walking, cycling, scootering and other forms of active mobility. It is the most sustainable mode of transport as it has a very low environmental and social impact compared to other modes of transport.

Companies active in the manufacture and production of soft mobility vehicles (such as bicycles and scooters) or their components are therefore aligned with Ethos' positive impact methodology.

6.2 LOW CARBON VEHICLE MANUFACTURING

Transportation electrification and the use of cleaner fuels can make a significant contribution to climate protection. In addition, the introduction of stricter regulations on high-polluting vehicles will encourage the purchase of low-carbon emissions vehicles. While electric cars are not free of criticism, it is now widely accepted that they emit less carbon dioxide than thermal over their full lifecycles even when using a carbon-intensive electricity mix²⁰. The use of public transportation and rail services, by electric motors, instead of personal vehicles, is also an efficient option for commuting or travelling, reducing emissions per passenger. Hybrid vehicles are not aligned with the methodology unless a significant, credible and scientific reduction in GHG emissions can be demonstrated in a specific application for which electric solutions are not suitable. Hybrid passenger cars do not show significant GHG emission reductions and are not included in this methodology²¹.

Companies active in the manufacture and production of the following vehicles and their essential components are aligned with Ethos' positive impact methodology:

- Battery electric vehicles, including motorcycles, cars, trucks, buses and specialised vehicles (forklifts, etc.);
- Electric buses;
- Electric trains;
- Rapid public transport (subways, trams, cable cars, funiculars, etc.);
- Hybrid and electro-diesel trains;
- Sailing boats;
- Bicycles and electric bikes.

¹⁹ <https://www.wri.org/insights/4-charts-explain-greenhouse-gas-emissions-countries-and-sectors>

²⁰ <https://www.mdpi.com/2071-1050/13/19/10992>

²¹ <https://www.sciencedirect.com/science/article/abs/pii/S0959652621001037>

<http://www.impact-living.ch/wp-content/uploads/2022/01/Consommation-vehicules-hybrides-rapport-publie-IMPACT-LIVING-canton-Valais-11-01-22.pdf>

6.3 LOW CARBON MOBILITY INFRASTRUCTURES

The electrification of transport implies the availability of specific dedicated infrastructures. The success of the transition to electric vehicles depends to a large extent on the development and distribution of charging stations. Large electric vehicles require cables or railways to transmit electricity. In addition, and in order to promote soft mobility, public infrastructure for walking and cycling should be developed.

Companies active in the development of infrastructures dedicated to the above-mentioned vehicles and to soft mobility are therefore aligned with Ethos' positive impact methodology.

6.4 LOW CARBON MOBILITY SERVICES

While the demand for personal electric vehicles depends on consumers, the production of electric mass transport and freight vehicles is driven by companies that offer such services. Therefore, they play an important role in the transition to low-carbon mobility. The emergence of shared mobility services also increases transport efficiency.

The following sectors are therefore aligned with Ethos' positive impact methodology:

- National and international public transport services (ticketing services, etc.);
- Shared mobility services (carpooling, low carbon vehicle subscription services, self-service bicycles, cargo bikes, soft mobility parking, etc.);
- Low-carbon freight transport (rail freight solutions, maritime transport solutions, logistics, etc.).



7. Pollution control

Human activities lead to the introduction of contaminants into the natural environment. Air, water and soil pollution endanger ecosystems, biodiversity and public health. It reduces the capacity of ecosystems to capture carbon and to self-decontaminate. According to the scientific journal "The Lancet", in 2017 alone, at least 8.3 million people prematurely died due to the effects of pollution, mainly in developing countries²². Fuels, heat and power generation, household and personal care products, agriculture and industrial processes are among the main anthropogenic causes of pollution.

Air pollution is caused by GHG emissions, sulphur and nitrogen oxides, carbon monoxide, fine particles and volatile organic compounds. Marine, surface and groundwater pollution is mainly due to contaminated agricultural and stormwater runoff, but also to plastics, chemical and oil spills, sewage treatment plants, industrial effluents or landfills. These pollutions have multiple negative consequences on terrestrial, aquatic and marine ecosystems as well as on adjacent populations and communities.

Most countries have adopted legislations to control pollution with standards with varying strictness levels²³. These laws and requirements have created markets in which many companies operate to prevent, control or treat pollution. Various technologies, products and control processes have been developed to address this environmental problem.

Ethos' positive impact methodology aims to identify companies that make a significant contribution to the fight against pollution while striving not to harm society and the environment.

7.1 POLLUTION PREVENTION

Pollution prevention reduces or eliminates pollutants before they enter the environment. It occurs at all stages of a sustainable economy, from the extraction of natural resources, through production, provision of services and consumption, to the end of a product's life. By avoiding pollution at source, natural resources are protected, operational and compliance risks are reduced, as well as environmental clean-up costs and health risks.

This category includes companies that provide products and services that avoid pollution by using less polluting inputs in manufacturing, improving industrial processes

and capturing/removing pollutants before they enter the environment. This includes companies changing their business model to take pollution into account, consultancies helping to implement pollution prevention practices, and green chemistry – green solvents or processes that avoid harmful chemicals.

7.2 POLLUTION REDUCTION AND CONTROL (WITH RESTRICTIONS)

There are technologies and solutions that can be used to minimise emissions and human impact on the environment. These include dust collection systems, electrostatic precipitators (or filters) to separate solid particles from a gas, emission control systems for vehicles where no low-carbon alternative is available, thermal oxidisers (only if powered by renewable energy), pollutant monitoring and detection systems. However, these technologies and solutions that minimise and control pollution are not considered to have a positive impact if they are not compatible with the other sustainable objectives mentioned in Ethos' positive impact methodology, such as the circular economy and climate protection.

7.3 POLLUTION TREATMENT

Pollution treatment is necessary once the pollution has been released into the environment, in order to eliminate it from water and soil and to mitigate its negative effects.

This category includes companies that provide products and services that support the collection, capture, storage and disposal of unavoidable pollutants and waste in an appropriate manner. Examples include nature-based solutions that restore ecosystems or provide green infrastructure, such as reforestation or coastal habitat restoration, or systems for decontaminating water (reverse osmosis, strong-based anion exchange resins, iron oxide/hydroxide, calcium exchange) or soil (bioremediation, etc.).

²² https://gahp.net/wp-content/uploads/2019/12/PollutionandHealthMetrics-final-12_18_2019.pdf

²³ <https://www.unep.org/resources/assessment/environmental-rule-law-first-global-report>

8. Resilient agriculture, aquaculture and silviculture

Biodiversity refers to the variety and variability of living beings on Earth. It includes diversity within species, between species and of ecosystems. Biodiversity enables nature to provide us with services, such as food, water, energy, textiles or materials – also known as ecosystem services – which make human life possible on Earth and are therefore essential for human life and well-being.

While some natural resources are renewable, it takes time for the planet to replace them and thus we need to build resilient ecosystem services to meet humanity's basic needs while staying within planetary limits. Humans are now consuming more resources than nature can produce and return. At the current rate of consumption, it would take 1.7 Earths to provide the natural resources that humanity uses in one year²⁴. Population growth, over-consumption and unsustainable practices are leading to land conversion, fertility depletion, ocean acidification, increased GHG emissions, soil erosion, biodiversity loss, pollution and many other negative environmental impacts. In addition, resources are unevenly distributed across the regions of the world, with direct consequences for food security, health, economic development and peace.

As biodiversity is indirectly covered in the other themes of this positive impact methodology, the aim here is to focus on key human activities that have significant direct and measurable impacts on biodiversity and ecosystems. Ethos thus focuses on ecosystems that are used to produce food, textiles, energy and materials through agricultural, aquacultural and silviculture practices.

The solutions are divided into three types of production and cultivation: agriculture, aquaculture and silviculture. They must respect certain basic principles:

- Solutions and methods must have a credible and recognised certification, especially with regard to biodiversity conservation. Exceptions may be allowed on a case-by-case basis when demonstrable benefits for biodiversity conservation are possible

and validated by independent scientific sources. Exceptions may also be made for new innovative solutions that are not yet included in existing certifications. Appropriate certifications are determined by product type. Other local and regional equivalents may also be taken into account;

- Animal protein production is not considered to have a positive impact because Ethos believes that it is not necessary to sustain human life and wellbeing. In addition, animal protein production is the most GHG intensive source of protein, calories and nutrients. It can also cause animal abuse and suffering.

8.1 SUSTAINABLE AGRICULTURE

Agriculture is the growing of crops and the raising of livestock to produce food, energy, materials or textiles. Sustainable agriculture is a complex concept that encompasses environmental and social considerations to build resilient ecosystems according to local specificities. As mentioned above, livestock farming is not included in Ethos' positive impact methodology. However, the following agricultural practices can be cited as sustainable:

- Crop rotation and the introduction of temporary grassland;
- The establishment of intercropping and intermediate cover;
- Reducing or eliminating tillage;
- Integrated pest management (IPM);
- The use of composts;
- The development of agroforestry;
- Mixing trees and shrubs in crops.

²⁴ <https://www.footprintnetwork.org/2019/06/26/press-release-june-2019-earth-overshoot-day/>

Ethos' positive impact methodology therefore includes companies active in the following areas:

- The production of agricultural commodities using certified practices and processes that significantly contribute to biodiversity conservation;
- The trade, manufacture, processing and distribution of the above-mentioned certified production, provided that they also comply with the criteria set out in point 2.4;
- The development, manufacture and sale of innovative tools, technologies and solutions specifically for sustainable agricultural practices.

8.2 SUSTAINABLE AQUACULTURE

Aquaculture is the rearing, breeding and harvesting of fish, shellfish, algae and other organisms in all types of aquatic environments to produce food, energy, materials or textiles. As mentioned above, fish and shellfish farming is not included in Ethos' positive impact methodology. In contrast, the Ethos positive impact methodology for sustainable aquaculture includes companies that derive their revenues from:

- The production of algae and other plants using certified practices and processes that contribute significantly to the conservation of biodiversity (aquatic and marine);
- The trade, manufacture, processing and distribution of the above certified production;
- The development, manufacture and sale of innovative tools, technologies and solutions that specifically enable sustainable aquaculture practices.

8.3 SUSTAINABLE SILVICULTURE

Silviculture is the establishment, maintenance and control of a forest and its composition. This practice is essential to meet humanity's needs for materials such as wood and paper. However, it is crucial that it is done in a way that preserves biodiversity, maintains the water cycle and prevents soil erosion. Ethos' positive impact methodology for sustainable silviculture includes companies that derive their revenues from:

- The production of forest stands and timber using certified practices and processes that contribute significantly to biodiversity conservation and reforestation;
- Trade, manufacture, processing and distribution of certified production;

- The development, manufacture and sale of innovative tools, technologies and solutions that specifically enable sustainable silviculture practices.



9. Sustainable real estate

According to the World Economic Forum, buildings account for 40% of global GHG emissions, 50% of final energy consumption and 40% of raw materials consumption in 2021²⁵. The construction and real estate industry therefore has a considerable impact on global warming as well as on water use. Key issues in this sector include the manufacturing of building materials (concrete, iron, steel, glass and cement), insulation systems, but also heating and cooling systems, lighting and other equipment. In traditional commercial buildings – for example, heating, ventilation and air conditioning (HVAC) – equipment is responsible for about 40% of total energy consumption, while water heating accounts for about 20% of consumption²⁶.

In addition to contributing to climate change, the real estate sector is also affected by climate change. Extreme weather events such as storms and floods are a major threat to buildings and their inhabitants.

The construction and real estate sectors also raise social concerns. For example, despite a continuous increase in the number of residential buildings, the number of people living in inadequate or unsafe conditions continues to rise, as does the number of vacant locations²⁷.

Ethos takes the following criteria into account in its definition of sustainable real estate:

- The environmental impact of buildings throughout their life cycle;
- The use of low carbon materials;
- The energy consumption of the building, including energy savings and the ability to generate energy;
- Water use, including water savings from renovation;
- The recovery rate of construction waste.

The scope of this category covers manufacturers of building materials, engineering and construction companies, companies active in the renovation and insulation of buildings, real estate investment and management companies, manufacturers of construction equipment and appliances and affordable housing developers. It does not include the construction of infrastructures such as highways, bridges or railways, or specialised structures and facilities such as refineries, factories and power stations, which are covered under

other themes in this methodology. The demolition of buildings is addressed under the circular economy theme when the materials are reusable or recyclable, and under the theme of the fight against pollution when they need to be decontaminated.

9.1 GREEN BUILDING MATERIALS

To reduce the environmental impact of building materials, more sustainable alternatives have appeared on the market. For example, concrete can sometimes be replaced by sustainable natural products such as wood, bamboo or adobe. Biobased materials do not require an energy-intensive manufacturing process, can act as carbon sinks during their growth, pollute less and are renewable and recyclable. They can also be mixed with industrial products to reduce the negative impacts of these products.

Ethos seeks to identify manufacturers of building materials who make significant efforts to reduce the ecological footprint of their materials as well as those who offer alternative building materials such as bricks or clay. Therefore, companies active in the production of renewable building materials, building materials made from a mix of renewable and non-renewable products, recycled building materials and low-carbon building materials are aligned with Ethos' positive impact methodology.

9.2 GREEN BUILDINGS

Green buildings are designed to optimise the use of resources and materials, improve and protect the health and well-being of residents, and reduce the negative environmental impacts of their construction, operations, commissioning, decommissioning and end-of-life disposal. These buildings can significantly reduce energy costs, improve the quality of life and improve indoor environmental quality, enhance resource conservation, facilitate the integration of renewable energy and help protect biodiversity.

Companies active in the construction, renovation, insulation, investment, management and ownership of

²⁵ <https://www.weforum.org/agenda/2021/04/buildings-of-the-future-real-estate/>

²⁶ https://docs.wbcsd.org/2018/12/WBCSD_New_Energy_Solutions%20f%20or%201.5C.pdf

²⁷ <https://unstats.un.org/sdgs/report/2019/goal-11/>

green buildings are aligned with Ethos' positive impact methodology provided that the following criteria are met:

- The solutions and techniques must have a credible and recognised certification;
- The total primary energy intensity in kWh/m²/year must be less than or equal to 50 for residential buildings, and less than or equal to 100 for commercial buildings;
- In the case of renovation work, this must result in at least 30% overall energy savings.

9.3 CLIMATE-RESILIENT BUILDINGS

Climate resilient buildings reduce the physical risks associated with climate change (e.g. temperature changes, sea level rise, changes in precipitation patterns, changes in storm patterns). Not only do they prevent major damage costs, they also limit population displacement and homelessness, maintain socio-economic activity in the face of climate stress, reduce the risk of flooding and save lives.

Companies active in climate-resilient construction, renovation, acquisition, consulting and management of services in the building and real estate sector are aligned with Ethos' positive impact methodology.

9.4 ENERGY-SAVING APPLIANCES, LIGHTING AND EQUIPMENT

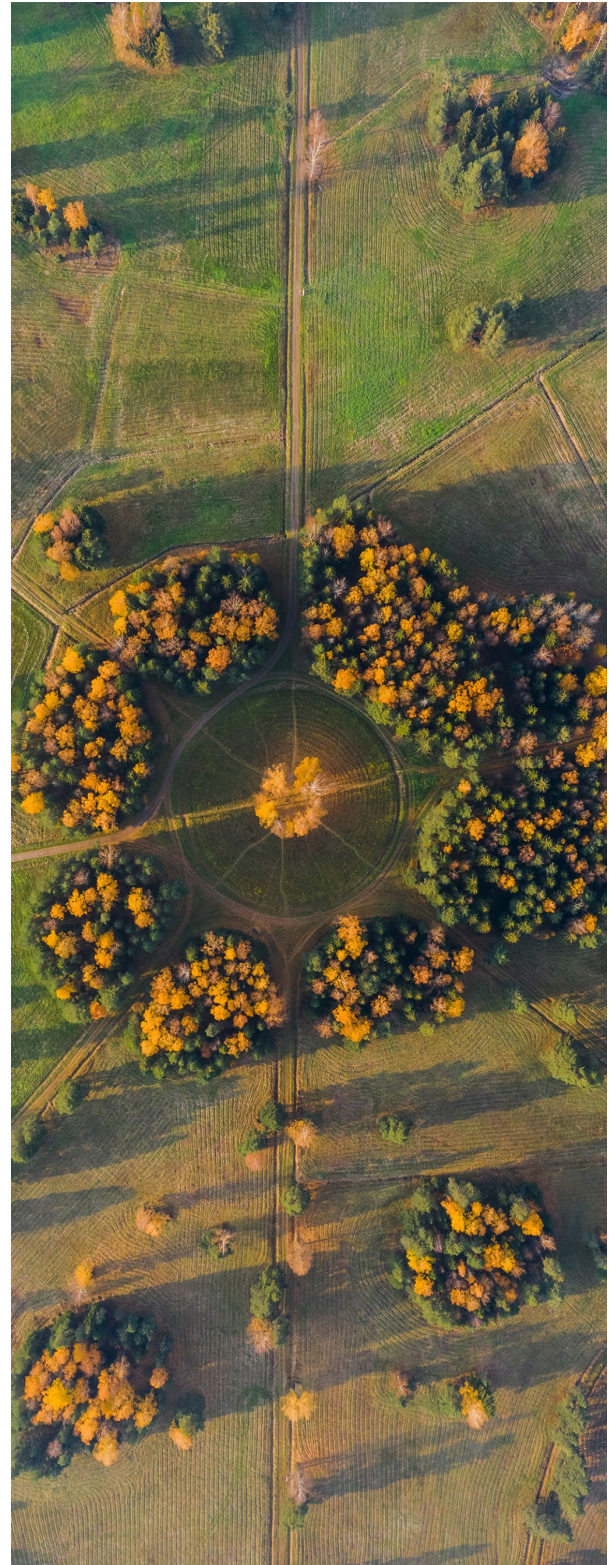
Improving the energy efficiency of appliances, heating equipment, HVAC, lifts or lighting can result in significant cost, energy and emission savings.

Companies active in the production of energy-efficient appliances, lighting and equipment certified according to the highest international energy labels and standards (EU energy label, Energy Star, LED, etc.) are aligned with Ethos' positive impact methodology.

9.5 ADEQUATE AND AFFORDABLE HOUSING

An adequate and affordable house can be defined as having access to sanitation, basic infrastructure services, sufficient living space, adequate privacy, security, a good standard of living and whose cost does not threaten the other human rights of the occupants. Improving access to adequate and affordable housing – particularly for low-income and older people – reduces urban exclusion, economic inequality and vulnerability while improving the physical and mental health.

Companies active in the construction, renovation, acquisition and management of adequate and affordable house are aligned with Ethos' positive impact methodology.



10. Sustainable water management

Water covers approximately 70% of the planet's surface. Only about 3% of this water is fresh, and less than 1% is usable for human needs. The remaining freshwater is either too polluted or trapped in glaciers, polar ice caps, soils or the atmosphere²⁸. According to the United Nations, agriculture uses an average of 72% of the world's freshwater, while industry and households use 16% and 12% respectively²⁹.

Water is essential for life, for healthy ecosystems and for economic development. Yet population growth is putting pressure on water resources. It is therefore essential to address issues such as access to safe drinking water and sanitation, the effects of climate change on the water cycle and the pollution of water resources. According to the WHO/UNICEF Joint Monitoring Programme for Water Supply, Sanitation and Hygiene, two billion people still lacked access to safe drinking water in 2020 and 3.6 billion people lacked access to adequate sanitation facilities³⁰. In addition, water use for agricultural, industrial and domestic purposes produces wastewater, 80% of which is discharged into aquatic ecosystems without treatment³¹.

Ethos considers sustainable water management as the ability to meet the basic needs of humanity while having the least possible impact on the water cycle. Therefore, Ethos pays particular attention to the following criteria:

- The ability to manage water to provide adequate quantity and quality to meet the physiological, agricultural, health and industrial needs of humanity;
- The ability to maintain water supply in the context of climate change, water scarcity and extreme droughts;
- The ability to remove pollutants from wastewater to ensure the preservation of water quality.

The scope of this category covers the capture, collection, storage, distribution, use and treatment of water, as well as resilience to water-related extreme weather events. Ethos' positive impact methodology aims to identify

companies making a substantial contribution to sustainable water management while striving to do no harm to society and the environment.

10.1 WATER COLLECTION, STORAGE AND DISTRIBUTION

Collection, storage and distribution systems are at the centre of the water network. Through a combination of pipes, storage facilities, pumps and other infrastructure, they connect raw water sources and treatment plants to end-users, whether residential, agricultural, commercial or industrial. They also carry wastewater to treatment plants. Managed sustainably, these systems reduce freshwater use, pressure on groundwater, urban runoff, flooding and soil erosion, for instance by collecting rainwater and using it for non-potable applications such as irrigation or sanitation.

This category includes companies that provide products and services that support the development, maintenance and operation of:

- Rainwater harvesting systems;
- Fog water collection systems;
- Pumped feed systems;
- Distribution systems;
- Rainwater management systems;
- Irrigation systems;
- Sewage system.

To be aligned with Ethos' positive impact methodology, companies must offer water systems with an energy consumption of 0.5 kWh or less per cubic metre of water supplied, which corresponds to the threshold defined by the European taxonomy³².

²⁸ <https://www.usbr.gov/mp/arwec/water-facts-ww-water-sup.htm>

²⁹ <https://www.unwater.org/water-facts/scarcity/>

³⁰ <https://www.unwater.org/publications/who-unicef-joint-monitoring-program-for-water-supply-sanitation-and-hygiene-imp-progress-on-household-drinking-water-sanitation-and-hygiene-2000-2020/>

³¹ <https://www.unwater.org/water-facts/quality-and-wastewater/>

³²

https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf (p. 293)

10.2 WATER MANAGEMENT INFORMATION SYSTEMS

Enhanced monitoring of water supply systems and infrastructure can help to reduce the risks associated with poor quality and extreme water-related weather events. For example, smart water networks use smart meters, advanced sensors and information and communication technologies to provide real-time diagnosis of network problems and to improve the efficiency, longevity and reliability of the network. In addition, infrastructure monitoring technologies reduce the risk of leakage, failure and inefficiency of aging water and sewer lines, dams and other infrastructures.

This category includes companies that provide products and services that support the development, maintenance and operation of:

- Smart water networks;
- Early warning systems for floods, droughts and storms;
- Water infrastructure monitoring systems;
- Groundwater information systems;
- Water quality control systems.

10.3 WATER EFFICIENCY

Water efficiency can be defined as the intelligent use of water resources through water saving technologies. These technologies allow people to do more with less water, which also means saving energy and money. Such efficiency measures can be applied to household consumption (e.g. low-flush toilets, high-efficiency shower heads), industrial production (e.g. reuse of process water for cooling towers) and agricultural use (e.g. improved irrigation infrastructure).

To be aligned, companies must offer technologies and equipment that offer a water saving potential of at least 20%, which corresponds to the threshold defined by the European taxonomy³³.

10.4 WATER AND WASTEWATER TREATMENT

Water treatment is necessary to provide safe access to water and to properly treat wastewater until it reaches an acceptable level before it is released into the environment. Positive impacts of water and wastewater treatment include the protection of human health and ecosystems, in particular plants and animals living in water, the prevention of eutrophication or over-fertilisation of receiving waters and the preservation of freshwater supplies. Innovative processes, such as desalination, also represent a solution to water scarcity as climate change increases the number of water-stressed regions.

This category includes companies providing products and services that support the development, maintenance and operation of:

- Water treatment technologies and processes;
- Desalination systems;
- Wastewater treatment systems, technologies and processes;
- Water recycling systems.

To be aligned, companies must offer water or wastewater treatment technologies that consume 0.5 kWh or less per cubic metre of water treated³⁴. Also aligned are companies whose revenues are generated by water or wastewater treatment facilities and which have achieved LEED certification or another equivalent standard.

33

https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf (p. 293)

34

https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf (p.293)

11. Sustainable finance

The financial system is at the centre of global economic development. The establishment of a sustainable and inclusive financial system is therefore a prerequisite for building a sustainable economy. On one side, the UN estimates that the financial gap to achieve the SDGs by 2030 is USD 2'500 billion per year³⁵. On the other side, the International Renewable Energy Agency estimates that investments of more than USD 27'000 billion in clean energy will be needed by 2050 if the goal of zero net GHG emissions is to be achieved and to have any chance of limiting global temperature rise to 1.5°C³⁶.

While some of this funding is to be provided by public institutions, evidence shows that currently the mobilisation of public financial resources has been far below the amounts required. The mobilisation of private capital is therefore essential. Furthermore, as the entire financial system must make a transition, other intermediaries, such as insurance companies, will play a central role in the transition to greater sustainability.

For Ethos, sustainable finance consists of financing an economic activity that contributes to an environmental or social objective, provided that it does not cause significant negative environmental or social impacts and that the companies financed follow good governance practices. The pursuit of a sustainable investment objective must be demonstrated through clear and accessible disclosure. Furthermore, progress against the objective must be reported in a periodic dedicated report. This definition can be applied to various financial services, including asset management and lending activities.

11.1 SUSTAINABLE INVESTMENTS

Investments, whether through investment funds or managed portfolios, have predefined objectives and are subject to different levels of research and evaluation. If the objectives, evaluation process and communication are in line with Ethos' definition of sustainable finance, they are considered sustainable investments. For example, investment products complying with Article 9 of the EU Regulation on Sustainable Finance Disclosure Regulation (SFDR) or that have obtained a recognised sustainable finance label (e.g. FNG Siegel) meet the above criteria. For markets outside the EU, Ethos will monitor the development of sustainable finance standards and the criteria will be subject to regular review.

Companies whose revenues from financial products are considered sustainable investments are aligned with Ethos' positive impact methodology.

11.2 SUSTAINABLE LENDING

There are many ways to make funds available to an individual or business. Bonds, credit facilities, project finance and mortgages are some of the forms of loans. According to Ethos, the different forms of loans can be considered as sustainable if they meet one of the following criteria:

- Funds are made available for general purposes to a borrower whose economic activity contributes to an environmental or social objective (e.g. positive impact themes as defined by the methodology);
- The funds made available are dedicated to an activity or project that contributes to an environmental or social objective. This may include specific positive impact projects or green, social or sustainable bonds according to the criteria of the International Capital Market Association (ICMA).

Companies whose revenues are derived from sustainable lending products are aligned with Ethos' positive impact methodology.

³⁵ <https://www.un.org/press/en/2019/dsgsm1340.doc.htm>

³⁶ <https://www.irena.org/financeinvestment/Investment-Needs>

11.3 SUSTAINABLE INSURANCE

The insurance industry is in a unique position to promote a sustainable global economy. Given their role as risk managers, insurers can promote sustainable activities and practices by applying their data and expertise to:

- Encourage policyholders to mitigate environmental or social risks by offering attractive premiums;
- Develop insurance and reinsurance products and services to meet the needs of economic activities that contribute to an environmental or social objective (e.g. positive impact themes as defined by the Ethos methodology). business activities that contribute to an environmental or social objective (e.g. positive impact themes as defined by the Ethos methodology).

Companies whose revenues are derived from sustainable insurance products are aligned with Ethos' positive impact methodology.



12. Conclusion

This positive impact methodology allows Ethos to identify and quantify the share of a company's revenue, and therefore the share of portfolios, which can be considered as having a positive social or environmental impact. It thus enriches Ethos' ESG analyses by taking into account the double materiality, i.e., taking into account not only the effects that social and environmental factors may have on a company's activities, but also the company's own social and environmental impacts.

This positive impact methodology also contributes to the promotion of socially responsible investment – one of the goals of the Ethos Foundation – in the same way as shareholder engagement, sector exclusions or ESG ratings of companies. The final aim is to further redirect investments towards companies and economic sectors that have a positive impact on the environment and society in general, either by adapting existing financial products or by creating new ones.

By defining strict criteria for ten different themes, this positive impact methodology also aims to establish a reliable and credible framework for corporate environmental and social reporting, at a time when more and more companies are self-declaring part of their activities as positive, especially with regard to the climate. It is therefore a way to fight against greenwashing.

Finally, Ethos applies its own values in addition to the European taxonomy by refusing to include natural gas and nuclear energy in the list of activities considered positive from an environmental perspective.

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