APPENDIX B – EXCLUSIONS FRAMEWORK

PWM Responsible Investing exclusion framework covers corporate, sovereign/quasi sovereign issuers.

Exclusions apply to all types of securities (equities, bonds, convertible bonds) issued by excluded entities, as well as bonds issued by related financial vehicles. They also apply to participation notes and derivatives issued by third parties on such securities. Exclusions apply to securities negotiated on primary and secondary markets, as well as OTC instruments. Short positions (direct or indirect) are allowed.

Exclusions are based on reliable sources gathered from reputable third-party research providers, non-profit organizations, and governments. The Bank retains full discretion over the implementation of exclusion criteria and reserves the right to deviate from third-party information on a case-by-case basis in instances where it is deemed incorrect or incomplete, for example in the case a company is undergoing a sustainable transformation. Such exemptions may be initiated by investment or research teams and must be supported by a written rationale subject to validation by PWM investment platform management and PWM Sustainability Lead. Exemptions are limited in time and must be resubmitted for extensions.

When new exclusions are agreed, it comes into force with immediate effect, precluding new investments.

Existing investments are divested from relevant portfolios based on market conditions, but in principle no later than three months after taking effect. PWM Investment Risk & performance is responsible for ensuring that exclusions are implemented through pre- and/or post-trade checks.

The name of excluded issuers can be disclosed to clients upon request, subject to third-party provider agreement on data disclosure.

Explanatory Notes on High-ESG Risk Activities[10] deemed harmful to society and/or the environment.

Energy

Thermal Coal: This includes mining thermal coal or generating electricity from thermal coal. On a lifecycle basis thermal coal is more carbon intensive than other fossil fuel sources, while from an energy generation perspective it is easily substitutable. Thermal coal, also known as energy coal, or steam coal, is mainly used in power generation.

Oil & Gas Production: This includes the oil and gas upstream, midstream, and downstream. Petrochemicals and distribution activities are not included. The Oil & Gas industry is controversial because of its high carbon intensity and the impact on climate change. Also, it is very resource intense in terms of land and water resources. Its impacts on ecosystems include spillages, waste management issues, and spontaneous flaring, which can lead to fines and are associated with reputational risks. In certain geographies oil & gas operations are associated with strained relations with local communities and with issues with governance and business practices. Health and safety issues are also important as repetitive accidents can lead to operational disruption or fatalities.

Oil Sands Extraction: This includes oil sands extraction activities. Oil sands are considered controversial because they are extremely carbon intensive, and dirty – their extraction methods cause air pollution 'in situ', as well as water withdrawal, and contamination from mining.

Shale Energy Extraction: This includes the extraction of shale gas and/or oil. Shale energy extraction involves environmental risks like water pollution and carbon emissions. Rock fracture, fracking, is needed to make natural gas flow through the shale, which poses environmental concerns due to its potential effects on the watershed. Shale energy is also associated with slightly higher carbon emissions than conventional resources.

[10] Source: Sustainalytics, Pictet Wealth Management

Arctic Oil & Gas Exploration: This includes oil and gas exploration activities in offshore Arctic regions. Exploring for oil and natural gas in the Arctic is controversial in the context of global climate change as well as because of the increased risk of environmental disasters.

Weapons

Controversial weapons: This includes weapons that have indiscriminate effects, cause undue harm and are incapable of distinguishing between civilian and military targets. Some controversial weapons, such as cluster munitions, antipersonnel mines, chemical and biological weapons, as well as nuclear weapons, are regulated by international conventions. Controversial weapons include:

(a) Anti-personnel mines;

(b) Cluster weapons;

(c) Biological and chemical weapons (including white phosphorous);

(d) Nuclear weapons[11].

Military Contracting: This includes manufacturing of weapons or weapon components or providing weapon-related products or services to the army or the defense industry. Military contracting, also referred to as the defense or armaments industry, can be considered controversial for reasons of pacifism, asymmetric defense-related purchasing power between countries, negative effects on economic growth and development particularly in post-conflict areas as a result of defense spending, potential issues around transparency and corruption, and its potential for (re-)fueling wars and conflicts.

Small Arms: This includes firearm weapons such as guns, rifles, and pistols and manufacturers of components of these weapons. Firearms can be considered controversial as they are reported to be a major factor in the increase of armed conflict worldwide. They are the weapon of choice for many terrorist groups around the world and often hinder smoother rebuilding and development after a conflict has ended. Besides the loss of human life and physical harm, armed violence also has significant (direct and indirect) economic costs.

Addictive Products

Tobacco Products: This includes cigarettes, cigars, tobacco, electronic cigarettes, paper used by end consumers for rolling cigarettes, filters, snuff tobacco, etc. Tobacco is considered controversial because of the negative health consequences (cancer) of long-term use of tobacco products, also leading to substantial medical costs for society. Tobacco companies are exposed to significant financial and reputational risks because of legal cases and class actions brought against them.

Adult Entertainment: This includes the production of adult entertainment and the operation of adult entertainment establishments. Adult Entertainment can be considered controversial as it is claimed that it may undermine faith and family values. Other concerns are that the materials show the subordination of (wo)men.

Gambling Operations: This includes gambling services (operation of casinos, lotteries, bookmaking, online gambling, etc.) but not gambling products (slot machines and other gambling devices). Gambling is considered controversial because it can lead to addiction, with sufferers exhibiting many of the same problems as those with substance addictions, creating severe social problems.

[11] In the case of nuclear weapons, exclusions apply to companies that have their registered office in a country which is not a signatory to the 1968 Treaty on the Non-Proliferation of Nuclear Weapons.