PICTET GROUP

EU Sustainable Finance Disclosure Regulation

Sustainability-related product disclosure

VERSION AS OF MAY 2023

No sustainable investment objective

This financial product promotes environmental or social characteristics but does not have as its objective sustainable investment.

The Mandate intends to partially invest in economic activities that contribute to at least one of the following environmental and/or social objectives:

- Taxonomy-aligned (climate change mitigation and climate change adaptation).

- Other environmental (sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, or protection and restoration of biodiversity and ecosystems).

- Social (inclusive and sustainable communities, adequate living standards and well-being for end users, or decent work).

This is achieved by investing:

- in securities financing fully or partially economic activities that contribute to one or several of the environmental and/or social objectives listed above. Eligible securities include equities and bonds issued by companies with a proportion of activities (as measured by revenue, EBIT, enterprise value or similar metrics) derived from such economic activities. When investing in these securities and subject to data availability, the investment manager applies internal do not harm criteria to determine eligibility of relevant economic activities to be classified as environmentally or socially sustainable. In addition, the mandate excludes issuers that are subject to severe controversies in areas such as human rights, labour standards, environmental protection, and anti-corruption.

- in funds classified as Article 8 or Article 9 under SFDR Regulation that invest partially or fully in securities financing economic activities that contribute to the environmental and/or social objectives listed above. When investing in these funds, the investment manager evaluates the fund's "do not cause significant harm" disclosure, to the extent such disclosures can be obtained.

In addition, the Mandate considers and, where possible, mitigates adverse impacts of its investments on society and the environment by investing the majority of its assets in funds classified as Article 8 or 9 under SFDR regulation as well as through a combination of portfolio management decisions, active ownership activities, and for direct investments in securities of corporate issuers, through the exclusion of issuers associated with controversial conduct or activities.

Environmental and Social Characteristics (E/S characteristics)

The mandate "Responsible Investing" promotes environmental and social characteristics by adopting a holistic approach combining the monitoring of issuers' and funds' environmental and social characteristics, an analysis of their level of sustainability risks, and the implementation of clear screening criteria and of portfolio construction rules.

In particular, the mandate seeks to:

- invest in funds classified as Article 8 or 9 under SFDR Regulation or in funds with an ESG score[1] of at least 4 for at least 60% of the assets invested in funds.

- monitor the level of sustainability risks of direct investment in securities of issuers through a broad range of ESG characteristics such as company's ESG Risk, quality of Corporate Governance and Carbon intensity.

- exclude issuers that are in severe breach of international norms and/or have significant revenues from activities with adverse impacts on society or the environment and actively managed funds with an ESG score[1] of less than 2.

For more details on sustainability indicators used to measure the ESG characteristics, please refer to the section "Methodologies for environmental or social characteristics”.

[1] *This indicator is based on the Investment Manager’s own due diligence assessment of the fund and ESG scoring methodology. ESG scores range from 1 to 5 with 1 being “Laggards” and 5 being “Leaders”.*

Investment strategy

The objective of the product is to provide a balance between capital growth and the preservation of real value in the long term. The investment strategy follows a diversified, actively managed approach that aims at investing responsibly across a wide range of asset classes and currencies while optimising risk-adjusted returns. The investment process promotes Environmental, Social and Governance (ESG) characteristics. When selecting investments, the mandate adopts a best-in-class approach that seeks to invest in securities and funds with low sustainability risks while avoiding those with high sustainability risks. The Investment Manager uses its proprietary ESG scorecard while selecting direct single-name equity and credit positions. The analysis is based on four pillars: corporate governance (e.g., remuneration, board composition), product and services (e.g., % of green revenues, revenues from high-risk activities), operational risks (e.g., carbon intensity) and controversies (e.g., social and/or supply chain incidents, business ethics incidents).

The Investment Manager uses a dedicated proprietary ESG due diligence questionnaire to support the fund selection process. The questionnaire is reviewed periodically and is based on four pillars: firm level policy, investment process, active ownership and monitoring & reporting.

The investment manager assesses company decision-making processes and controls, as well as how management balances the interests of shareholders, employees, suppliers, customers, the community and other stakeholders. Assessed areas may include:

- the composition of the executive team and board of directors, including the experience, diversity and distribution of roles, along with succession planning and board evaluation
- executive remuneration, including short term and long-term incentives and their alignment with investor interests
- risk control and reporting, including auditor independence and tenure
- shareholder rights, including one-share-one-vote and related-party transactions

When investing in funds classified as Article 8 or Article 9, the Investment Manager evaluates the fund’s policy on good governance practices, to the extent such policy can be obtained.

The mandate’s binding elements include:

Investments in funds classified as Article 8 or 9 of the SFDR Regulation or with an ESG score of at least 4 for at least 60% of the assets invested in funds.

Exclusion of issuers that:

- are involved with nuclear weapons from countries that are not signatories to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) and other controversial weapons;
- derive a significant portion of their revenue from activities detrimental to society or the environment, such as thermal coal extraction and power generation, unconventional oil and gas exploration and production, conventional oil and gas production, nuclear power generation, conventional weapons and small arms, military contracting weapons and weapon-related products and services, tobacco production, adult entertainment production, gambling operations, genetically modified organisms development/growth, pesticides product/retail; or
- severely violate the UN Global Compact principles on human rights, labour standards, environmental protection and anti-corruption.

Exclusion of actively managed funds that:

- have and ESG score as defined by the Investment Manager of less than 2.

Proportion of Investments

The mandate invests mainly in funds and listed shares. At least 70% of investments are aligned with the mandate's environmental and social characteristics and a minimum proportion of 15% are sustainable investments. The mandate's other investments (not aligned with E/S characteristics) include gold and derivatives and may also include funds not classified as Art 8 or 9 under SFDR Regulation for diversification purposes. Minimum safeguards are covered by our dedicated proprietary ESG due diligence.

Monitoring of E/S characteristics

To ensure ongoing compliance, the bank monitors E/S characteristics implemented in the investment process by pre- and post-trade checks against the binding elements. Those checks are performed by Portfolio Management as well as Investment Risk teams.

Methodologies for E/S characteristics

The indicators that are used to measure the E/S characteristics promoted by this mandate include:

- exposure to funds classified as Article 8 or 9 of the SFDR Regulation, or with and ESG score of at least 4.
- exposure to issuers that severely violate the UN Global Compact principles on human rights, labour standards, environmental protection and anti-corruption.
- exposure to issuers that are involved with nuclear weapons from countries that are not signatories to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) and other controversial weapons or derive a significant portion of their revenue from activities detrimental to society or the environment, such as thermal coal extraction and power generation, unconventional oil and gas exploration and production, conventional oil and gas production, nuclear power generation, conventional weapons and small arms, military contracting weapons and weapon-related products and services, tobacco production, adult entertainment production, gambling operations, genetically modified organisms development/growth, pesticides product/retail.

Data sources and processing

We have developed a proprietary ESG Scorecard that provides a focused view of both ESG risks and opportunities. Our ESG Scorecard is based on a curated set of the most material data points, across four pillars: Corporate Governance, Products & Services, Operational Risks, and Controversies. The scorecard collects ESG data from various third-party providers on specific datasets and internal proprietary analysis.

ESG data providers are subject to a regular review of their business model, research process, technical expertise, data coverage, quality assurance mechanisms, and prevention of conflicts of interests.

Similarly for fund manager selection, we have developed a comprehensive ESG questionnaire that includes both firm-and fund-level questions. The completed questionnaires are assessed on four pillars: Management Firm commitment to ESG, Investment Process, Active Ownership, Monitoring and Reporting. Based on this assessment, each fund is then assigned an ESG score ranging from 1 (ESG Laggard) to 5 (ESG Leader).

Once ESG data is integrated into our systems, we conduct quality controls on an on-going basis to detect and address issues that may negatively affect data usage.

Limitations to methodologies and data

Key limitations to our methodologies may include a lack of data coverage and/or quality.

To overcome these issues, the Pictet Group ESG Data Committee reviews periodically current and potential ESG data providers and serve as escalation point for remediation to data quality issues or issues related to lack of coverage.

The Investment Manager relies on various sources of information to analyse and monitor potential investments (including third party data and internal proprietary analysis) and to ensure compliance with defined binding elements and exclusions. The Investment Manager 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. In such cases, exemptions to the exclusion criteria may be initiated by investment teams, must be supported by a written rationale and is subject to validation by senior members of the investment platform. Once validated, the exemption needs to be monitored on an on-going basis.

Due diligence

Our due diligence process of issuers covers the following areas:

- The clarity and robustness of the issuer's long-term strategy

- The functioning and calibre of governance structures and effective leadership

- The financial strength and performance of issuers and the fair valuation of underlying securities.

- Sustainability risks & opportunities and adverse impacts of potential investments on society and/or the environment.

Our due diligence process for fund selection covers:

- robustness of responsible investing policy
- coherence of policy adherence and implementation across the whole value chain
- scoring with our proprietary scoring methodology and comparison with peer-group.

Engagement policies

Active ownership through engagement and proxy voting is intended to improve the long-term sustainability of the businesses the bank invests in on behalf of investors in discretionary portfolios.

The bank considers it our fiduciary duty to engage selected corporate issuers in order to positively influence a company's ESG performance and to protect or enhance the value of our clients' investments. Similarly, for fund manager selection we systematically address ESG issues with our investment partners and encourage improvements of current practices. At this stage engagement is not promoted as part of the E/S characteristics of this mandate.

Please refer to Wealth Management Responsible Investment Policy for more information on our active ownership activity.

Designated reference benchmark

No reference benchmark has been designated for the purpose of attaining the environmental and/or social characteristics.